

Vistra Australia

Superannuation Salary Sacrifice

Overview

Superannuation salary sacrifice is an arrangement between an employer and an employee whereby the employee agrees to move some of their future pre-tax salary into Super.

Superannuation salary sacrifice is typically a tax-effective strategy to reduce an your overall tax. Note not everyone will request for this arrangement because it means moving some of your pre-tax salary to super (which means your take home pay reduces).

Will your remuneration package change as a result of this arrangement?

Superannuation Guarantee Payments in Australia is 9.5% of gross income, up to a certain limit/cap. This increases to 10% from 1 July 2021.

Your remuneration package will not change as a result of this arrangement. Our standard Salary Sacrifice Agreement states that the employer will continue to contribute the current minimum 9.5% super guarantee amount (up to the limit/cap) on pre-sacrifice salary.

Changes to superannuation rules from 1 July 2017

Due to changes in superannuation rules from 1 July 2017 you are able to make superannuation contributions using your after tax salary and claim a tax deduction when you file your personal tax returns. Effectively the tax benefit to you is the same however the timing of the tax benefit is the difference. Under a salary sacrifice arrangement there is an immediate tax benefit to you at each payrun (as you are moving pre-tax salary to super). If you were to do this yourself using after tax salary and claiming the deduction in your tax return you receive the tax benefit once a year when you file your tax return.

By way of an example:

	Salary Sacrifice (via company payroll)	Super contributions by employee themselves
Base salary	2,000.00	2,000.00
Less: salary sacrifice super	(1,200.00)	
	800.00	2,000.00
	(312.00)	(780.00)
Net cash paid to employee	488.00	1,220.00
Employee makes contribution to super		(1,200.00)
	488.00	20.00
<u>Annual Tax return</u>		
Tax Deduction	-	1,200.00
Tax benefit say 39%		468.00
Overall tax	312.00	312.00

In the example you can see that:

In a salary sacrifice arrangement the company deducts amount from pre-tax wages. The withholding tax is calculated on the net wages. There is an immediate tax benefit under this arrangement.

However if you make the contribution yourself:

1. You will need to contribute using their after tax funds, reducing your net pay further
2. You will only receive the tax benefit when you lodge your tax return (once a year)

What are the steps for entering into a salary sacrifice arrangement?

If you would like to enter into a salary sacrifice arrangement you will need to complete the Salary Sacrifice Agreement Form (attached), then return to your employer. Please be mindful that a salary sacrifice arrangement can only apply to future earnings, not past earnings.

What do the employees need to be aware of?

- For a salary sacrifice arrangement to be effective it can only be applied to future earnings (not past earnings).
- There are contribution caps that apply under the superannuation rules. Any contributions above the cap will result in additional taxes for the employee. Under the salary sacrifice arrangement the employer will not track the amount of contributions made nor consider whether the cap has been reached. It will be up to you to track yourselves as the employer will only process per the completed salary sacrifice form.
- You can enrol, change or terminate the salary sacrifice arrangement at any time.
- You will need to return the signed salary sacrifice agreement form before the cut off due date for processing the payroll.

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