Salary Sacrifice

Salary sacrifice to superannuation is a strategy available to many employees as a tax efficient method of accumulating wealth.

Background

Salary sacrificing into superannuation is where an employee foregoes part of their pre-tax income in exchange for superannuation contributions made by the employer. The tax deductibility of employer contributions can effectively be passed onto the employee. In many cases, salary sacrifice contributions can result in a net gain to the employee's after-tax financial position because they incur 15% contributions tax, rather than their marginal rate (see note on high income earners below)

Employers are not obliged to offer salary sacrifice arrangements to their employees. To be legal the arrangements must be in place prior to the employee receiving the benefit, ie: a salary or bonus payment, they intend to salary sacrifice.

Salary Sacrifice contributions are treated as concessional contributions and care must be taken not to exceed the annual cap. The concessional contributions cap for FY26 is $30,000. If you exceed this cap (and you are not eligible to use the carry-forward rule) the amount you exceed it by will be taxed at your marginal rate.

Advantages

- money contributed to superannuation, for which the employer claims a tax deduction, is only taxed at 15%
- you are accumulating capital in the superannuation environment which can provide for highly tax efficient retirement incomes strategies later.
- employer contributions into superannuation do not attract Fringe Benefits Tax.
- your tax is based on the reduced salary, therefore creating PAYG tax savings.

Disadvantages

- your take home pay will be reduced, which may affect your ability to meet your day to day living expenses.
- your contributions will be preserved, which means you cannot access them until you are over your preservation age and have satisfied a condition of release (eg retirement).

Additional 15% tax for high income earners

You will also pay Division 293 tax on concessional contributions if your income, plus your concessionally taxed super contributions are greater than $250,000 (cap applies from 1 July 2017). Division 293 tax levies 15% tax on taxable contributions above this threshold.

If this is the case the total tax on the contributions (30%) would still be expected to be less than the marginal tax rate of the investor.