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Salary Sacrifice

What is Salary Sacrifice?

Salary sacrifice is an arrangement where an employee agrees to forego (or sacrifice) part of their salary as income, and instead has it paid into superannuation as a before-tax contribution, or towards another approved salary sacrifice arrangement. This agreement must be entered into prior to the income being earned.

How Does It Work?

The process by which salary sacrificing to super works is:

- An employee chooses to forego an amount of their salary and have it paid into super instead
- The employee's before-tax income is reduced by this amount
- This amount is paid into super as an employer-paid contribution, referred to as a concessional contribution
- As the contribution is a concessional contribution, it is subject to 15% contributions tax on entry to the Fund.

Example	No salary sacrifice	With salary sacrifice
Gross income	$65,000	$65,000
Salary sacrifice	$0	$5,000
Adjusted gross income	$65,000	$60,000
Income tax payable	$11,588	$9,988
Tax on salary sacrifice	$0	$750
Total tax payable	$11,588	$10,738
Net income	$53,412	$49,262
Net super contribution	$0	$4,250
Net benefit (super + salary)	$53,412	$53,512

N.B. Salary sacrifice is a concessional (pre-tax) contribution, therefore lump sum tax may apply when withdrawing super. Tax in this example is calculated according to marginal tax rates for the 2024/25 financial year, and assumes no other income. It includes the Medicare Levy of 2% and a low income tax offset.

What are the benefits of salary sacrificing?

Depending on your personal financial situation you may pay less tax and have more take home pay than if you were making after-tax contributions. Superannuation contributions are generally taxed at a lower rate than your salary. Therefore, by diverting part of your salary to your super before tax is calculated and deducted, you may pay less tax on that amount.

Is there any downside to salary sacrificing?

As a contributions tax is deducted from these contributions, members in super schemes that are required to contribute a specified percentage of their salary may need to increase their before-tax contribution to ensure the final contribution amount in their super account is correct.

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Certain Government benefits and taxes are calculated on an adjusted income amount which may include salary sacrifice super contributions as income. This means that while the taxation on your salary may be reduced if you salary sacrifice, the cut off levels for certain benefits are based on the pre salary sacrifice income amount, not on taxable income. These benefits include the Government co-contribution and some family tax benefits.

Salary sacrifice contributions will be shown as Reportable Employer Superannuation Contributions (RESC) on the Payment Summary your employer provides you and the ATO at the end of each financial year.

Your contributions are preserved in the superannuation system until you permanently retire or satisfy another condition of release.

You may pay extra tax if your salary sacrifice contributions result in your total concessional contributions exceeding your cap for the year (see Concessional contributions limit). As salary sacrifice contributions are concessional contributions they will not be eligible for the Government co-contribution.

Concessional contributions limit

Salary sacrifice contributions count towards your concessional contributions limit of $27,500 per year. You need to consider whether the amounts of salary sacrifice contributions you want to make, in addition to your employer's contributions to super, will put you over this concessional contributions limit.

In the 2024-25 year the Superannuation Guarantee (SG) contributions rate increases to 11.5% of your ordinary time earnings (OTE) instead of 11% in the 2023-2024 year. These contributions count towards your concessional contributions limit. Therefore, your salary sacrifice contribution may need to be adjusted to account for this.

Contributions that go over the limit are subject to much higher levels of tax. If you exceed the concessional contribution limits in any given year, your excess contributions will be taxed at a rate of 31.5%. This is in addition to the 15% superannuation contribution tax, which makes a potential tax liability of 46.5%. The excess contributions will also count towards the annual non-concessional contribution limit of $180,000 (six times the concessional contribution limit).

Can I Salary Sacrifice into Super?

From 1 July 2022, the "works test" has been scrapped and everyone up to the age 74 can now contribute to super. However, if you want to make tax deductible contributions personally, you still need to pass the 40 hours or work within 30 days.

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