



# Your guide to salary sacrifice.

October 2021



# What is salary sacrifice?

You could pay less tax and make a big difference to your super balance when you're ready to retire.

Salary sacrifice is a way of making extra contributions to your super account from your before tax salary. One of the most attractive benefits of doing this is that contributions to super are taxed at a lower rate than the standard tax rate you pay on your income. So you benefit two ways by saving money on tax while building your super balance.

## **It lowers your taxable income.**

When you salary sacrifice, your employer makes contributions to your super from your before-tax pay. The balance then becomes your 'taxable income'. This amount is used to determine your tax rate and ultimately, the amount of tax you pay.

Depending on your income, contribution limits and amount you choose to pay into your super, you can use salary sacrificing as an effective strategy to pull your taxable income down into a lower tax bracket.

## **You pay lower tax on contributions to your super.**

When you get paid, you are taxed at your marginal tax rate. Depending on what you earn, this could be as much as 45% plus the Medicare Levy.

Super contributions are taxed at just 15% – so whatever money you sacrifice into super is taxed only at this lower rate.

It's this difference between super tax rates and your income tax rates that makes salary sacrifice so effective.

## Lowering your taxable income – an example.

Let's look at an example of someone with a total salary package of \$78,000, made up of \$70,200 salary, plus \$7,800 (the 10% Super Guarantee contributions from his employer).

By salary sacrificing an additional \$80 per week from pre-tax salary, taxable income is reduced by \$4,160 each year. That's a saving of \$811 in income tax while simultaneously providing a real boost to super savings.

| Lowering your taxable income                        |                          |                                   |
|---|--------------------------|-----------------------------------|
| Salary package                                      | With NO Salary Sacrifice | With \$80 a week Salary Sacrifice |
| Total package                                       | \$78,000                 | \$78,000                          |
| 10% super contributions                             | \$7,800                  | \$7,800                           |
| Salary before sacrifice                             | \$70,200                 | \$70,200                          |
| Salary sacrifice to super                           | \$0                      | \$4,160                           |
| Taxable income                                      | \$70,200                 | \$66,040 <sup>1</sup>             |
| Income tax (including Medicare levy)                | \$14,686                 | \$13,251 <sup>2</sup>             |
| <b>After tax contribution to super</b>              | <b>\$0</b>               | <b>\$0</b>                        |
| <b>Take home pay</b>                                | <b>\$55,514</b>          | <b>\$52,789<sup>3</sup></b>       |
| Total super contributions                           | \$7,800                  | \$11,960                          |
| Super contributions tax                             | \$1,170                  | \$1,794                           |
| Total tax paid                                      | \$15,856                 | \$15,045                          |
| Net super contributions                             | \$6,630                  | \$10,166                          |
| <b>Total net salary and net super contributions</b> | <b>\$62,144</b>          | <b>\$62,955<sup>4</sup></b>       |

The table above is calculated using 2020-2021 individual income tax rates which apply from 1 July 2020. Superannuation Guarantee (SG) contribution requirements 2020-2021. SG Contributions are based on pre-salary sacrifice income level. Assumes superannuation guarantee of 10% is not reduced by employer as a result of salary sacrifice.

1 After salary sacrifice, income tax is paid on only \$66,040.

2 So income tax is \$1,435 less.

3 Take home pay is \$2,725 less.

4 But the combined value of his pay and super contributions increases by \$811.

# A little extra now, a lot more later

## How much extra could you contribute?

If you're thinking about salary sacrifice, there are a couple of points to consider. Firstly, how much can you afford to regularly contribute without putting a strain on your current lifestyle? Because of the positive effects of compound interest, regular contributions are key to getting the most out of salary sacrifice.

Secondly, you'll need to think about the type of retirement you'd like to enjoy. If you're hoping for regular overseas holidays and a luxurious home you may need to consider larger contributions than you would for a more modest lifestyle.

Once you know your goals, you'll be in a better position to understand how much extra you'll need to make your plans a reality.

## The benefits of getting in early.

The earlier you start saving, the longer your investment earnings will have to grow. So there's never been a better time to start than now.

| The benefits of getting in early                 |           |           |          |
|--|-----------|-----------|----------|
| If you start adding \$25 a week to your super at | Age 20    | Age 30    | Age 40   |
| Total amount added                               | \$58,500  | \$45,500  | \$32,500 |
| Extra benefit at retirement                      | \$521,911 | \$232,685 | \$98,717 |

Source: JANA Investment Advisers Pty Ltd. Earnings are calculated at a compound interest rate of 8% p.a. with amounts being fully invested until age 65. These assumptions are for illustrative purposes only and don't account for fees and tax. Investment returns are not guaranteed. Returns can be higher or lower than set out in this example. This is not a prediction or estimate of actual retirement savings.

# Are there contribution limits?


## Limits placed by your employer.

Before setting up your salary sacrifice, talk to your employer and check whether:

- they have any maximum amount limits
- they will let you change or stop your salary sacrifice arrangement whenever you want
- your employer will accommodate salary sacrifice arrangements

Should you exceed certain limits – called ‘contribution caps’ – note that any contribution made over this amount may be taxed up to the highest marginal tax rate of 45%, plus you’ll pay the Medicare Levy, plus an interest charge to reflect the fact that this tax is being collected later than your usual income tax.

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 The concessional contribution cap for the 2021-2022 financial year is \$27,500.

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To find out more about contribution caps, visit [www.ato.gov.au/Rates/Key-superannuation-rates-and-thresholds/](http://www.ato.gov.au/Rates/Key-superannuation-rates-and-thresholds/)

# Is salary sacrifice right for you?

## When can I salary sacrifice?

You can salary sacrifice if your employer allows such arrangements – and you're under 67.

Or, if you're over 67 and have been gainfully employed for at least 40 hours across 30 consecutive days during the current financial year.



You can only salary sacrifice into an account that's held in your own name. So you cannot make salary sacrifice contributions to somebody else, such as your spouse.

For information about Spouse contributions and Super splitting visit [hostplus.com.au/pds](https://hostplus.com.au/pds)

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## Why salary sacrifice isn't for everyone.

Salary sacrifice works best when your marginal tax rate is more than 15%. That's because 15% is the rate at which super contributions are taxed.

If your tax rate is already less than 15% then salary sacrificing will give you no added advantage. In fact, if you're on a low tax rate then making after-tax super contributions might actually be smarter as you might be eligible for a government super co-contribution.

If you earn \$37,000 p.a., you could also qualify for the Low Income Superannuation Tax Offset (LISTO) of up to \$500.

To find out more about government co-contributions and the LISTO, visit the ATO at [www.ato.gov.au](http://www.ato.gov.au)

## If you think salary sacrifice is right for you...

We can explain to you how salary sacrifice works. But only a financial planner can help you decide whether it's the right strategy for you.

As a Hostplus member, you can take advantage of a consultation with a Hostplus financial planner. Your first conversation with a Hostplus planner is included in your membership.

To make an appointment, call **1300 467 875**  
8am – 8pm AEST, Monday to Friday

Or if you'd prefer to email us,  
[info@hostplus.com.au](mailto:info@hostplus.com.au)



# Getting started is simple

If you've decided salary sacrifice is for you just follow these 3 steps to get started:

## **Step 1:**

Talk to your employer to find out if they offer salary sacrifice. If they do, be sure to check if a new salary sacrifice arrangement will affect any of your other benefits. Things like overtime, leave loadings and your Super Guarantee contributions could be affected.

## **Step 2:**

Decide how much you'd like to regularly contribute. Please consider the non-concessional contribution caps when deciding an amount to ensure you do not exceed them and have to pay additional tax.

## **Step 3:**

Complete the salary sacrifice form enclosed with this guide and give it to your employer or payroll officer.







### 3 Sign the declaration.

I understand and acknowledge that:

- while my employer pays such contributions the salary otherwise payable to me will be reduced by the amount of the contributions.
- salary sacrifice can only apply to future remuneration or service.
- the contributions will be treated as employer contributions for tax purposes and a contributions tax of 15% on contributions will be payable when they are received by Hostplus.
- the benefit resulting from these contributions:
  - will not be treated as non-concessional contributions and may attract further taxes when paid as a benefit,
  - will be subject to Federal Government preservation requirements, and
  - will count towards my contributions cap.
- the salary sacrifice arrangement will continue in force until I advise my employer in writing of any change or cancellation.
- the contributions will be invested in Hostplus in accordance with my chosen investment option.
- it's my responsibility to obtain financial advice from a licensed advisor before agreeing to salary sacrifice.

Signature of applicant\*

Date\*

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### Employer use only.

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This salary sacrifice form is accepted and confirmed as the agreement between the employer and employee. The contributions deducted by the employer will be remitted to Hostplus within 28 days after the end of the month in which they were deducted.

Authorised signature for employer

Date\*

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Employer stamp

On completion, please retain this form and place a copy on the employee's personnel file. **Don't send this form to Hostplus.**



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**Email** [info@hostplus.com.au](mailto:info@hostplus.com.au)

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Issued by Host-Plus Pty Limited ABN 79 008 634 704, AFSL 244392 as trustee for the Hostplus Superannuation Fund (the Fund) ABN 68 657 495 890, MySuper No 68 657 495 890 198.

INH 1016 10/21

