



What exactly is “salary sacrificing” and what are the benefits? Are there any pitfalls?

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Salary sacrificing simply means using some of your pre-tax salary to pay for things instead of coming out of your post-tax income. Your pay and benefits received are greater than the after-tax pay that you would have normally received. The most popular forms of salary sacrificing include extra super contributions or a company car.

The benefits

- **Paying less tax** - the biggest benefit with salary sacrificing is paying less tax. Money into super is only taxed at 15% instead of your marginal tax rate (potentially 46.5%).
- **Forced form of saving** – regardless of the amount some of us seem to spend whatever goes into our bank account each week. Sacrificing into super before you get paid may be the best thing for poor savers
- **Drive a new car** – trying to buy a new car on after-tax dollars may be difficult to achieve but it can be made a lot easier by salary packaging

The pitfalls

- **Tying money up** – putting money into super now but having to wait til you retire to access it can seem an eternity particularly if you have mortgage commitments now.
- **Fringe benefits tax (FBT)** – most items, including home laptops, are subject to FBT & hence negate any tax benefit if they were packaged
- **Check your marginal tax rate** - if you earn under \$35,000 you are effectively paying the same marginal tax rate (15%) as putting extra money into your super fund ... may as well have the money now
- **Cap on super** – the recent Federal Budget put a cap of \$25,000 into super each year (or \$50,000 if you are over 50 years old)
- **Slack employers** – don't be surprised if your employer goes bankrupt and you find out that they didn't pay your sacrificed super. It happens regularly.