

Fact Sheet for individuals

Salary sacrifice vs After-tax contributions

Deciding how to make contributions to super can be difficult. Below we examine the benefits and limitations of salary sacrifice versus after-tax contributions to help you determine the best option for you.

- » Salary sacrifice
- » After-tax contributions

Salary Sacrifice

What is it?

Making concessional contributions to super from your before-tax pay is known as salary sacrifice. The contribution is deducted from your total salary before income tax has been calculated, and forwarded to your super account.

Why salary sacrifice?

Salary sacrifice reduces your taxable income, so you pay less income tax. Only 15% tax is deducted from your salary sacrifice compared to the rate you pay on your income, which can be up to 46.5% (including the Medicare levy). You should consider your marginal income tax rate when determining whether salary sacrifice is beneficial for you.

The tax rate on the investment growth your super earns is also a maximum of 15%.¹ This can be much lower than investments outside superannuation.

The compulsory 9% contribution provided by your employer might not be enough to fund the retirement you want. Salary sacrifice can allow you to give your super the helping hand it needs to meet your retirement goals.

Take a look at our example (How salary sacrifice can save you tax) on the following page to see the benefits.

How much can I contribute?

You may contribute up to \$25,000 per financial year. If you are aged 50 or over a limit of \$50,000 will apply to you until the 2011/12 financial year. Remember that your employer's contributions (including any amounts they pay towards the administration costs and insurance premiums in your fund) also count towards the limit.

¹ The investment return we publish is already net of tax.

» Compare online

Visit www.russell.com.au, log in to SuperSolution and select the 'Contributions Optimiser' from the 'Calculators' menu.

» Need advice?

We have handpicked a panel of qualified financial advisers and trained them on your fund. Please call our Helpline to be referred.

» Have any questions?

Helpline: 1800 555 667
Website: www.russell.com.au
Email: yoursupersolution@russellsuper.com

If you turn 50 before 30 June 2012, you will be able to access the higher limit from the year of your 50th birthday until 2011/12.

It is up to you to monitor your contributions and ensure the limit is not exceeded. Contributions above the limits will be taxed at 46.5%, and are also counted towards your after-tax (non concessional) contribution limit. You can monitor your contributions on our website. Log in to SuperSolution and select 'Quotations' then 'Concessional Contributions' to find an up to date figure.

Things to consider

Salary sacrifice is not offered by all employers. Check with your payroll officer or human resources department to see if your employer allows you to salary sacrifice.

Salary sacrifice contributions are not counted towards the Government co-contribution scheme.² If you only make salary sacrifice contributions you won't be eligible to receive a co-contribution.

You may still qualify for a co-contribution by making after-tax contributions to super along with your salary sacrifice.

It is not compulsory for employers to pay superannuation guarantee contributions on income you salary sacrifice. Your employer may choose to calculate their contribution based on your income after the salary sacrifice has been deducted. This would reduce the amount that they pay to your super. Your payroll office or human resources department will be able to tell you how your employer will calculate their contribution.

² You can read more about co-contributions in our Super Co-contribution fact sheet.

How salary sacrifice can save you tax

Sam's salary is \$85,000. If he sacrifices \$5,000 to super, he will pay \$750 contributions tax instead of \$1,975 income tax, giving him \$1,225 more to invest.

	With salary sacrifice	Without salary sacrifice
Gross salary	\$85,000	\$85,000
Salary sacrifice	\$5,000	\$0
Income tax*	\$19,050	\$21,025
Contributions tax	\$750	\$0
Net benefit (take home pay + salary sacrifice)	\$65,200	\$63,975

*2009/10 tax rates including Medicare levy

After-tax contributions

What are they?

After-tax (non-concessional) contributions are deducted from your salary after your income tax has been calculated. You may also make one-off after-tax contributions to your account with any savings you have.

How much can I contribute?

You may contribute up to \$150,000 per financial year. However, to accommodate larger contributions, people under age 65 are allowed to bring forward two years of contributions. For example, a person under age 65 is able to make up to \$450,000 of contributions in the 2009/10 financial year but will then be unable to make further non-concessional contributions until the 2012/13 financial year.

Why after-tax contributions?

If your total assessable income is lower than the relevant income threshold, making after-tax contributions may qualify you for a co-contribution from the Government of up to \$1,000.²

No contributions tax is deducted from your after-tax contributions (provided you do not exceed the contribution limits). If you have

a very low income your income tax rate may be lower than the 15% contributions tax deducted for salary sacrifice, so you could pay less tax by making after-tax contributions rather than salary sacrifice. This is particularly true for people who have low income and receive franked dividends from any share investments.

Things to consider

After-tax contributions are taxed at your marginal tax rate with the rest of your salary before entering your super account. Your marginal tax rate could be up to 46.5% including Medicare levy.

Any after-tax contributions made over the contribution limit will be taxed at the top Marginal Tax Rate (plus the Medicare levy) on top of the income tax you have already paid.

Compare salary sacrifice and after-tax contributions online

Our Contribution Optimiser can help you investigate how making contributions to super, salary sacrifice and after-tax, can affect your take-home pay and your net contribution to super.

By trying different assumptions about your annual income and the amount you want to contribute to super, the Contribution Optimiser can help you understand whether you're making the most of your super contributions.

Visit www.russell.com.au, log in to SuperSolution and select the 'Contributions Optimiser' from the 'Calculators' menu.


Ways to make additional contributions

Salary sacrifice

Please contact your HR department.

After-tax contributions

1. Use BPAY® to make a one-off payment

	Billers code: 646596
	Reference no: your unique customer reference number

2. Set up regular contributions via direct credit

Account name:	Russell
BSB code:	014-988
Account number:	your unique customer reference number

3. Set up regular contributions from your pay³

Log in to SuperSolution. Click 'Information' and download a *Your Contributions Form*. Complete the form and provide it to your payroll department.

4. Send us a cheque

Log in to SuperSolution. Click 'Information' and download a *Contribution by Cheque Form*. Complete the form and send it to us with your cheque.

Find your unique customer reference number

You can find your unique customer reference number by logging in to SuperSolution. Alternatively, visit www.russell.com.au, go to the SuperSolution log in page, click the 'Customer Reference Number' menu and enter your surname and member number.

³ For Employer Division members only.

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