

## Medical & Associated Professions Superannuation Fund



# Salary sacrifice or Government super co-contribution

## – what are the options for your super?

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The super co-contribution was introduced in 2003 to help low to middle income earners save for their retirement. Over the years, however, the eligibility criteria has been expanded to provide a greater benefit for a greater number of people. As a result, many people are reassessing the way they make contributions to their super.

### Salary sacrifice?

A salary sacrifice strategy allows you to make contributions to your super using pre-tax money. The benefit of this is twofold; not only do you boost your super by making additional contributions but, for income tax purposes, your taxable income is reduced by the amount you sacrifice to super, which could result in a lower tax bill. And, depending on the amount you choose to sacrifice, you could even drop down a tax bracket. Tax on super contributions made using a salary sacrifice strategy is calculated at the concessional rate of just 15 per cent, so you also have more to invest.

#### Stop press

Concessional contributions are limited to \$30,000 per person per annum for those aged less than 50 and \$35,000 for those aged 50 or over. Your employer's 9.5 per cent super guarantee contributions are included within as concessional contributions. This is an important point to note if you are considering a salary sacrifice strategy as you don't want to exceed the limit, otherwise you may incur penalty tax.

### Or super co-contribution?

To be eligible to receive a co-contribution from the Government you must first meet the eligibility criteria and, if you earn less than \$49,488 and make after-tax contributions to your super, you could qualify. It's that easy.

If you earn less than \$34,488 and make an after tax contribution to super of \$1,000, you could be eligible for the maximum super co-contribution of \$500 from the Government.

The co-contribution amount reduces by 3.333 cents for every dollar of income over \$34,488 and phases out completely once you earn \$49,488.

### So, which is better?

The answer depends on your individual situation and circumstances, but the tables overleaf illustrate the difference between a salary sacrifice strategy and a personal contribution strategy utilising the Government's super co-contribution, under a number of scenarios.

You cannot however, use a salary sacrifice strategy to reduce your income to a level that allows you to qualify for the Government's super co-contribution.

Let's look at the example using \$40,000 pa. The table shows the effect of a gross contribution of \$1,176 and illustrates the difference between a salary sacrifice strategy, which is taxed at the concessional rate of 15 per cent (or \$176), and a personal contribution strategy, which is taxed at the marginal rate of 32.5 per cent or \$383, but incorporates the Government's super co-contribution.

The important point to note is the different rates at which income tax is paid.

The table shows that a pre-tax contribution of \$1,176 made using the salary sacrifice strategy results in a total super contribution of \$1,000 (once tax has been deducted at the concessional rate of 15 per cent).

Using the same amount to make a personal contribution results in a total super contribution of \$1,110. This is because you would also qualify for a super co-contribution from the Government.

If you are eligible, and if the co-contribution benefit is attractive, you could use these strategies in unison; first consider maximising your entitlement to the co-contribution and then make any further contributions using a salary sacrifice strategy.

It's important to consider, however, if a change in strategy would have tax, Centrelink or family tax benefit implications. Your financial adviser will provide advice that is suitable for you and your situation.

|  | Salary sacrifice strategy | Personal contribution strategy utilising Government's super co-contribution |
|--|---------------------------|---|
| <b>Taxable income = \$30,000 (2014/15)</b> |                           |   |
| Gross amount contributed additionally      | \$1,176                   | \$1,176   |
| Income tax @ 19% after-tax contribution    | 0                         | \$223   |
| Super tax @ 15% pre-tax contribution       | \$176                     | 0   |
| Net member contribution to super           | \$1,000                   | \$952   |
| Super co-contribution                      | –                         | \$476   |
| Low income super contribution*             | \$72.50                   | –   |
| Total super contribution                   | \$1,072.50                | \$1,428   |
| <b>Taxable income = \$40,000 (2014/15)</b> |                           |   |
| Gross amount                               | \$1,176                   | \$1,176   |
| Income tax @ 32.5%                         | 0                         | \$382   |
| Super tax @ 15%                            | \$176                     | 0   |
| Net member contribution to super           | \$1,000                   | \$794   |
| Super co-contribution                      | –                         | \$316   |
| Total super contribution                   | \$1,000                   | \$1,110   |
| <b>Taxable income = \$50,000 (2014/15)</b> |                           |   |
| Gross amount                               | \$1,176                   | \$1,176   |
| Income tax @ 32.5%                         | 0                         | \$382   |
| Super tax @ 15%                            | \$176                     | 0   |
| Net member contribution to super           | \$1,000                   | \$794   |
| Super co-contribution                      | –                         | 0   |
| Total super contribution                   | \$1,000                   | \$794   |

\* The amount of the low income super contribution is limited to a maximum of \$500. This example takes into account the superannuation guarantee on a salary \$30,000.

The total does not include SG.

**Note:** The Government has recently proposed to abolish the low income superannuation contribution from 1 July 2014.

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