Fact Sheet: Salary sacrifice vs after-tax contributions

Deciding how to make contributions to superannuation can be difficult. We look at the benefits and limitations of salary sacrifice versus after-tax contributions to help you decide the best option for you.

Salary sacrifice

What is it?

Salary sacrifice is a contribution you make to your super from your before-tax pay. The contribution is deducted from your total salary before income tax has been calculated, and forwarded to your super account.

A before-tax contribution is also called a 'concessional' contribution. There is a limit to the amount of concessional contributions you can make in a financial year.[1]

Why salary sacrifice?

Salary sacrifice reduces your taxable income, so you pay less income tax. Only 15% tax is deducted from your salary sacrifice amount compared to the rate you pay on your income, which can be up to 47% (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%.[2] This can be much lower than the tax on investments outside superannuation.

The compulsory superannuation guarantee 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 the below example 'How salary sacrifice can save you tax' to see the benefits.

How much can I contribute?

You may contribute up to $27,500 for the 2021/22 financial year.[1] Remember that your employer's contributions (including any amounts they pay towards the administration costs and insurance premiums in your iQ Super account) and personal contributions for which you have claimed a tax deduction, also count towards the concessional contribution limit.

It is up to you to monitor your contributions and ensure the limit is not exceeded. Contributions above the limit will be taxed at your marginal tax rate, including the Medicare Levy and an interest charge, and will also count towards your after-tax (non concessional) contribution limit.

You can monitor your contributions using our app or through our website. Download and log in to the Super Tracker mobile app on the App Store or the Google Play Store, or log in to your online account at **russellinvestments.com.au/login** 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 (HR) department to see if your employer allows you to salary sacrifice.

Salary sacrifice contributions are not counted towards the government co-contribution scheme.[3] 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 payroll officer or HR will be able to tell you how your employer will calculate their contribution.

Connecting you with the right advice

From phone-based to face-toface options, our advice offer is designed to help you maximise your financial position.

We offer expert, phone-based advice on a single super-related issue, as well as Retire Ready meetings for those looking to retire in the next five years—both at no cost to you.

If you want advice on your full financial picture, including investments outside super, we offer personal financial planning. We've partnered with senior financial advisers who are committed to helping you meet your goals. Your first meeting is free.

If you need more information, please visit **russellinvestments.com.au/advice**

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[1] You can read more about these limits in our Contribution Limits Fact Sheet.
[2] The investment return we publish is already net of tax.

How salary sacrifice can save you tax

Sam's salary is $85,000. If he sacrifices $5,000 to super, he will pay $750 in contributions tax instead of $1,725 in income tax, giving him $975 more to invest.

	With salary sacrifice	Without salary sacrifice
Gross salary	$80,000	$85,000
Salary sacrifice	$5,000	$0
Income tax*	$16,987	$18,712
Contribution tax	$750	$0
Net benefit (take home pay + salary sacrifice)	**$67,263**	**$66,288**

* The figures used in the above table are estimates only and are based on 2021/22 income tax rates which include the Medicare Levy, and take into account the Low and Middle Income Tax Offset (effective 1 July 2018).

After-tax contributions

What is it?

After-tax (non-concessional) contributions are deducted from your salary after your income tax has been deducted. 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 $110,000 per financial year (provided you have not reached the transfer balance cap). However, to accommodate larger contributions, people under age 65 are allowed to bring forward two years of contributions, up to a total of $330,000.

For example, a person under age 65 is able to make up to $330,000 of contributions in one financial year, but will then be unable to make further non-concessional contributions for the next two financial years.

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 $500.[3]

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 before entering your super account. Your marginal tax rate could be up to 47% (including the Medicare Levy).

Any after-tax contributions made in excess of the contribution limit will be taxed at 47% (including the Medicare Levy) on top of the income tax you have already paid.

Ways to make additional contributions

Salary sacrifice

Please contact your HR department.

After-tax contributions

- Use BPAY® to make a one-off or regular payment

Biller code:	**646596**
Reference no:	**your unique customer reference number**

- Set up regular contributions from your pay#
  Download the Contributions Form at **russellinvestments.com.au/forms**

Note: You can find your unique customer reference number at **russellinvestments.com.au/crn**

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[3] You can read more about co-contributions in our Super Co-contribution Fact Sheet.