



Salary sacrifice

- From 1 July 2007 there will be major reforms to simplify the superannuation system. Due to these reforms, the information in this product may change. Updated information about superannuation will be available from this website progressively.

This information answers frequently asked questions about salary sacrificing for superannuation contributions. Separate information is available for [employers](#).

What is salary sacrifice?

Salary sacrifice is an arrangement by which an employee agrees to forego part of their future salary or wages in return for their employer providing benefits of a similar value.

A contractual agreement with your employer to alter your salary package by exchanging part of your future salary or wages for another benefit is called a 'salary sacrifice arrangement'.

What can I salary sacrifice?

Salary or wages can be sacrificed into a variety of benefits including:

- superannuation
- car fringe benefits, and
- expense payment fringe benefits, such as school fees, child care costs or loan repayments.

Your payroll or human resources officer should be able to advise you what you can and can't salary sacrifice, and what you need to do to arrange a salary sacrifice arrangement.

Note that there is no legal requirement for employers or employees to enter a salary sacrifice arrangement.

What are the benefits?

Under an 'effective' salary sacrifice arrangement for superannuation:

- you, as an employee, can increase your superannuation benefits and reduce your assessable income by an amount similar to the sacrificed amount (some employers take a portion of the amount for administration expenses), and
- your employer can obtain a tax deduction for the increased superannuation contributions (subject to employee age-based limits).

What are the rules?

A salary sacrifice arrangement for superannuation must satisfy all of the following requirements to be considered 'effective'.

There is an agreement between you and your employer

A contract of employment, including details of remuneration and any salary sacrifice arrangement, between you and your employer must exist before any work is performed. All the terms of the salary

sacrifice arrangement should be clearly documented.

The arrangement must be made before you are entitled to payment

The salary sacrifice arrangement must be entered into before you are entitled to payment. Normally the salary sacrifice arrangement would be entered into prior to you performing any work. Subject to the terms of your contract of employment, industrial agreement or award, you can renegotiate a salary sacrifice arrangement at any time.

There must be no access to the sacrificed salary

The salary being sacrificed must be permanently foregone. Any benefit entitlements paid in cash form part of your normal salary or wages, including deposits made by your employer into your bank account.

Superannuation contributions made to a complying superannuation fund are not subject to fringe benefits tax

A complying fund is a superannuation fund which complies with the Australian Government's rules.

To obtain more information on the compliance of a particular superannuation fund, you can check [Super Fund Lookup](#).

What are the implications when my salary sacrifice arrangement is 'effective'?

Assessable income and payment summaries The salary sacrificed component is not assessable income for taxation purposes, so it is not included on your payment summary and is not subject to pay as you go (PAYG) withholding tax. The reduced salary amount specified in a salary sacrifice arrangement becomes your assessable income for taxation purposes and should appear on the payment summary your employer gives you.

Superannuation guarantee The salary sacrificed contributions are paid as employer contributions to a complying superannuation fund. They then can count towards the 9% employer contributions required to meet the superannuation guarantee requirements. Your salary sacrifice could reduce or eliminate the amount of employer contributions required to be paid by your employer on your behalf.

For this reason it is advisable for all the terms of the arrangement to be fully and clearly documented.

Tax on contributions within superannuation fund You should be aware that contributions will be taxed within your superannuation fund at 15%. In addition, tax may be payable when you withdraw benefits from your fund. Your fund can provide you with more information about this.

Deductions and reasonable benefit limits You cannot claim any deductions or tax offsets for superannuation payments made by your employer under an effective salary sacrifice arrangement. This is because your employer, not you, is considered to have made the superannuation contributions. You cannot claim a deduction for the cost of any administration fees paid to your employer to enter and maintain a salary sacrifice arrangement. Contributions made

by your employer count toward your [reasonable benefits limits](#) (RBLs).

Fringe benefits tax A superannuation contribution made by your employer to a complying superannuation fund under an effective salary sacrifice arrangement is not a fringe benefit and is not subject to fringe benefits tax. This amount should not be reported on your PAYG payment summary from your employer.

What does it mean if my salary sacrifice arrangement is not 'effective'?

If your salary sacrifice arrangement for superannuation is not effective, amounts paid into your superannuation fund may:

- be included on your payment summary from your employer
- be subject to PAYG withholding tax, and
- represent part of your assessable income for taxation purposes.

Example 1: 'Effective' salary sacrifice arrangement for superannuation

Susan is about to start a new full-time job and was offered a remuneration package of \$50,000 a year including superannuation (\$45,000 base earnings and \$5,000 superannuation).

Instead of accepting the original terms of the offer, Susan negotiated an effective salary sacrifice arrangement for superannuation with her employer, requesting that:

- \$10,000 of her gross salary be contributed to her complying superannuation fund, and
- \$40,000 be paid to her as salary and wages.

Under this 'effective' salary sacrifice arrangement:

- Susan's employer could claim a \$10,000 tax deduction for the superannuation contribution (rather than a \$5,000 tax deduction under the original remuneration offer). The amount of the deduction is subject to employee age-based limits
- the salary sacrifice portion (the \$10,000 superannuation contribution) would not be treated as part of Susan's assessable income, so she would not have to pay income tax on this amount
- Susan's income for taxation purposes would be reduced to \$40,000 (rather than the \$45,000 offered before she negotiated a salary sacrifice arrangement), and
- the superannuation contributions would be considered to be employer contributions and, therefore, taxed in the superannuation fund.

Can my salary sacrifice arrangement provide fewer entitlements than under my award or contract of employment?

This may involve a breach of obligations under an award, industrial law, workplace or similar agreement. Advice should be sought from the industrial relations department (or equivalent) in your state or territory.

How much of my salary can I sacrifice?

There is no limit on the benefits that you can sacrifice – unless there is a limit in your relevant industrial law, award, workplace or similar agreement.

Can I sacrifice my leave entitlements?

Your leave entitlements can only be sacrificed before you have fulfilled the conditions to be eligible to take leave. This means that leave entitlements already owed to you can not be sacrificed, but leave entitlements that you will be entitled to in the future can be sacrificed.

For example, a leave entitlement has accrued and you cannot sacrifice this entitlement, if you:

- have completed sufficient service to take long service leave, or
- have accrued leave time that can be paid in cash on termination of your employment.

Can I salary sacrifice to spouse superannuation contributions?

There are no tax benefits in entering a salary sacrifice arrangement for superannuation for your spouse.

Contributions made by your employer for the benefit of your spouse are treated as follows.

- Your employer is not eligible for a tax deduction for contributions made to your spouse.
- The contribution would be a subject to fringe benefits tax.
- The contribution must be reported as a fringe benefit on your payment summary.
- The contribution is a taxable contribution in the fund, and subject to 15% contributions tax payable by the fund.

Can I salary sacrifice and then split those contributions to a superannuation account for my spouse?

You can enter a salary sacrifice arrangement with your employer to increase your level of employer superannuation contributions. Employer contributions are taxed splittable contributions, so if your fund offers splitting you should be able to split them to your spouse's superannuation account.

However, contributions splitting has to be arranged between you and your superannuation fund. It is entirely separate from, and occurs after, any salary sacrifice arrangement you have with your employer. You should not ask your employer to split contributions with your spouse.

For more information see [Superannuation contributions splitting - Individuals](#)

What about fringe benefits tax?

For more information relating to fringe benefits tax (FBT) and how it applies to employees, see [Reportable fringe benefits – facts for employees](#). Alternatively, you may phone **13 28 61**.

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