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 packaging (also known as salary sacrificing) not only helps to boost your superannuation savings but reduces the amount of tax you pay as well.

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 a maximum of 15 per cent, so you also have more to invest.

Don't exceed your limits

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 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 an excess contributions charge.

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 $51,021 and make after-tax contributions to your super, you could qualify. It's that easy.

If you earn less than $36,021 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 $36,021 and phases out completely once you earn $51,021.

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 salary 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.

It's important to consider 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.

Taxable income = $30,000 (2016/17)	Salary sacrifice strategy	Personal contribution strategy utilising Government's super co-contribution
Gross amount contributed additionally	$1,176	$1,176
Income tax @ 21% after-tax contribution	0	$247
Super tax @ 15% pre-tax contribution	$176	0
Net member contribution to super	$1,000	$929
Super co-contribution	–	$477
Low income super contribution*	$176	–
Total super contribution	$1,176	$1,430

Taxable income = $40,000 (2016/17)	Salary sacrifice strategy	Personal contribution strategy utilising Government's super co-contribution
Gross amount	$1,176	$1,176
Income tax @ 34.5%	0	$406
Super tax @ 15%	$176	0
Net member contribution to super	$1,000	$770
Super co-contribution	–	$367
Total super contribution	$1,000	$1,137

Taxable income = $50,000 (2016/17)	Salary sacrifice strategy	Personal contribution strategy utilising Government's super co-contribution
Gross amount	$1,176	$1,176
Income tax @ 34.5%	0	$406
Super tax @ 15%	$176	0
Net member contribution to super	$1,000	$770
Super co-contribution	–	$34
Total super contribution	$1,000	$804

The total for these tables does not include SG.

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