

HOSTPLUS Executive
Salary Sacrifice Guide

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4267 11/07 HOSTC3902



Salary Sacrifice Guide
Including salary sacrifice form



1 November 2007

Issued by Host-Plus Pty Limited
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Important information

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The information contained in this document is general information only. This document does not and is not intended to contain any recommendations, statements of opinion or advice. In any event, the information in this document is general in nature and does not consider any one or more of your objectives, financial situation or needs.

Before acting on this information, you should consider obtaining advice from a licensed, financial product adviser and consider the appropriateness of this information, having regard to your particular investment needs, objectives and financial situation.

You should obtain a copy of the HOSTPLUS Executive Member Guide Product Disclosure Statement and consider the information contained in the Statement before making any decision about whether to acquire an interest in HOSTPLUS Executive.

The taxation and superannuation information in this guide is correct as at 1 November 2007 and does not provide any information about fringe benefits tax or its effect on salary packaging.

Future changes to the legislation that governs superannuation, taxation and social security may have an effect on your salary sacrifice arrangements, so you should review your salary sacrifice arrangement on a regular basis.

A new car.

An exotic holiday.

Endless mornings of waking up and – *just imagine* – not having to go to work.

We're all dreaming of enjoying a comfortable lifestyle in retirement, not to mention some well-earned rewards. But the reality?

Compulsory superannuation contributions alone may not be enough.

We're living longer and our super savings may now need to last us 20 years or more. Take a simple (not to mention, necessary) item like food. For three meals a day at \$10 a meal for 20 years, you will need almost \$220,000.

Which is why it pays to start topping up your super today.

But why just top up for a super future with your after-tax salary? By salary sacrificing into your HOSTPLUS Executive account, you can be rewarded with extra money in retirement plus potential tax advantages now.

Read on and find out how.



What is salary sacrifice?

Salary sacrifice is when you choose to have your employer pay some of your salary into super rather than receive it as take-home pay.

And because the salary you sacrifice is paid directly into your **HOSTPLUS** Executive account before income tax is deducted, it can also help reduce your taxable income – a well earned benefit when you have worked hard to achieve the rewards of a high income earner.

Plus, with the abolition of the superannuation surcharge from 1 July 2005, salary sacrificing is even more effective for high income earners.

Here's how it works

Salary sacrifice contributions are, for the purpose of super, treated as employer contributions. Therefore, no income tax or fringe benefits tax are payable on these contributions.

Instead, salary sacrifice contributions are subject to a flat 15% contributions tax when deposited in your **HOSTPLUS** Executive account. This 15% tax is generally lower than the income tax you'd pay if you received that money as salary, which can be over triple the contributions tax rate.

However, if you have not provided your Tax File Number to **HOSTPLUS** Executive, you may pay tax at the highest marginal tax rate (45% excluding Medicare Levy) on contributions and benefits.

There may also be tax payable when you receive your benefit at retirement, depending on your age at the time and the composition of the payment.

You can only salary sacrifice into an account that is held in your name. So you're not able to make salary sacrifice contributions on behalf of another person, such as your spouse.

Discuss with your employer

Some employers allow you to top up your super by salary sacrificing. However, before entering a salary sacrifice arrangement, you should confirm if your employer imposes any conditions. For example, there may be certain times each year that you can start or stop a salary sacrifice agreement.

How much can you salary sacrifice

You can choose the amount you wish to salary sacrifice, although some employers place limits on the maximum amounts that may be sacrificed into super. And, subject to any conditions imposed by your employer, you are able to vary or discontinue your salary sacrifice arrangements at any time.

If you're employed under an award or workplace agreement, it will set out your minimum salary. Although it's possible to sacrifice salary to below the minimum entitlements for tax purposes, your employer may be legally required to provide the minimum salary under industrial law.

However, many awards and workplace agreements have now been amended to change part of the salary into non-cash benefits and permit employees to enter into a salary sacrifice arrangement.

You should seek professional advice to ensure that the new award or agreement gives you entitlements that are no less favourable than the entitlements that you were previously receiving.

From 1 July 2007, contributions caps apply and may affect the amount you choose to salary sacrifice.

Concessional (before-tax) contributions are capped at \$50,000 per member per annum. Any before-tax contributions above \$50,000 may be taxed up to the highest marginal tax rate of 45% (excluding Medicare Levy).

A transitional amount of \$100,000 concessional contributions – per member per annum – is allowed for members aged 50 or over, for a period of five years up to 2012. Concessional contributions will still be taxed at 15%.

All future income is eligible

You can make salary sacrifice contributions to your **HOSTPLUS** Executive account from a range of income types but please be aware that tax rules do apply.

Regular income

You can only choose to salary sacrifice future salary, ie. money you haven't yet earned.

If you salary sacrifice money you've already earned, the Australian Taxation Office (ATO) may reclassify the sacrificed amount as income and you will be taxed accordingly.

To avoid this, you should have a salary sacrifice agreement with your employer that states the amount of income to be sacrificed before you become entitled to that income, ie. before the work is performed.

Other types of income

As well as salary sacrificing amounts from your regular salary, you can also salary sacrifice amounts from bonuses, allowances or leave loadings, including annual or long service leave.

If you wish to salary sacrifice a bonus, it must be agreed before the bonus is earned. For example, if your performance-based bonus is paid in June each year and you'd like to salary sacrifice it, you will need to have a salary sacrifice agreement in place with your employer, generally before the start of the period for which the bonus is being paid.

If you would like to salary sacrifice annual or long service leave, you will need to have a salary sacrifice agreement in place before the start of the period during which the leave accrues.

Invest in professional financial advice

Everyone is different. So while we're happy to explain how salary sacrifice works, we do suggest that you seek advice from a licensed financial planner to help you decide if a salary sacrifice strategy fits with your financial situation and your long-term retirement objectives.

As a **HOSTPLUS** Executive member, you can access the services of Industry Fund Financial Planning (IFFP) AFSL 232514. In fact, in your first year of membership you're entitled to receive a free, initial financial plan for superannuation normally valued at \$550. Please see page 6 for details.

Is salary sacrifice right for you?

High income earners receive little direct tax support for any after-tax personal contributions they may make to super.

In contrast, a salary sacrifice arrangement is a way you can receive a tax advantage while growing your superannuation savings, particularly if your income is subject to a high marginal rate of tax.

In fact, it's one of the most efficient ways to increase your total combined take-home salary and superannuation contributions.

Lower your taxable income

Under a salary sacrifice agreement your employer pays contributions directly into your super fund before income tax is deducted.

This lowers your taxable income because more of your salary is being contributed to super instead of being taxed as income.

For instance, if you had \$1,000 to add to your super, you'd have \$850 to invest after contributions tax is deducted if you salary sacrificed. Whereas, at the highest marginal rate of tax (excluding Medicare Levy), you may have as little as \$550 if you received this money as take-home pay. Please see 'Reduced tax rates on contributions' on page 4.

Because less tax is paid and more dollars are contributed to super, your super account will have more potential for growth.

Marginal rates of tax

The tax rate for each income bracket defined by the ATO is called the marginal rate of tax. The marginal rates of tax for 2007–08 are listed below.

Taxable income	2007–08 marginal rate of tax
\$1 – \$6,000	Nil
\$6,001 – \$30,000	15¢ for each \$1 over \$6,000
\$30,001 – \$75,000	\$3,600 plus 30¢ for each \$1 over \$30,000
\$75,001 – \$150,000	\$17,100 plus 40¢ for each \$1 over \$75,000
\$150,001 and over	\$47,100 plus 45¢ for each \$1 over \$150,000

The above rates exclude the Medicare Levy of 1.5%.

For example

John reduces his salary a little but invests a lot into his future

Imagine John's total package is \$109,000, which is made up of \$100,000 salary plus Superannuation Guarantee (SG) contributions of \$9,000. But as the table below shows, by salary sacrificing \$5,000 John pays less income tax and increases the combined value of his pay and super contributions by \$1,250.

John's package	Without salary sacrifice	With salary sacrifice of \$5,000	
Total package	\$109,000	\$109,000	
SG contributions at 9%	\$9,000	\$9,000	
Salary before sacrifice	\$100,000	\$100,000	
Salary after sacrifice	\$100,000	\$95,000	Following salary sacrifice, income tax will only be paid on \$95,000.
Tax	\$27,100	\$25,100	Income tax is reduced by \$2,000.
Net salary	\$72,900	\$69,900	Take-home pay reduced by \$3,000.
SG and salary sacrifice contributions	\$9,000	\$14,000	
Less tax paid through your super fund	\$1,350	\$2,100	
Total net super contribution	\$7,650	\$11,900	
Combined net salary and super contributions	\$80,550	\$81,800	But the combined value of John's pay and super contributions increases by \$1,250.
Total tax paid	\$28,450	\$27,200	

The above example excludes the Medicare Levy of 1.5%.

This information is of an illustrative nature and not intended as financial advice. This example assumes your employer will choose not to reduce your SG contributions as a result of salary sacrifice. You must make your own assessment about its durability with or without the assistance of a licensed financial product adviser.

Reduced tax rates on contributions

Salary sacrifice contributions are subject to 15% contributions tax when deposited into a super fund. This is likely to be considerably less than the current marginal rate of tax that you would pay if you took this money as take-home pay.

The difference between these two tax rates is one of the main benefits of salary sacrifice.

For example

Mary gives herself a tax break

Mary's current income is \$150,000. She receives a pay rise of \$15,000 and is considering salary sacrificing the increase into super.

As Mary pays income tax at the marginal rate of 45% (excluding Medicare Levy), a \$15,000 salary increase would attract \$6,750 in tax, leaving her with \$8,250 in take-home pay.

If she salary sacrificed the \$15,000 to super, the full amount would go into her super fund where it would be taxed at 15% contributions tax, giving a net contribution of \$12,750.

Receiving the rise as salary		Salary sacrifice the rise into super	
Salary component	\$15,000	Salary sacrifice contribution	\$15,000
Less marginal rate of tax – 45%	\$6,750	Less contributions tax – 15%	\$2,250
Net amount paid as salary	\$8,250	Net amount into super	\$12,750

Less tax can mean more investment earnings

Super fund investment earnings are taxed at a maximum of 15%.

When you receive investment earnings outside of superannuation (eg. a bank term deposit), they are generally taxed at your marginal rate of tax, which may be as high as 45% (excluding Medicare Levy) depending on your income level.

This means that, over the medium to longer term, a super investment is likely to provide a better overall result than similar savings or investments made elsewhere. Just take a look at the table below.

Amount	Non-super investment earnings	Super investment earnings
Gross investment earnings	\$1,000	\$1,000
Tax payable	45% = \$450	15% = \$150
After-tax earnings	\$550	\$850

This example assumes that the non-super investment is taxed at 45% (excluding Medicare Levy). Fees, charges and any tax payable on withdrawal have not been taken into account.

Effective rates of returns for salary sacrifice

If you pay the highest marginal rate of tax of 45% (excluding Medicare Levy), your non-super investment would need to earn a return of 61% just to match the super investment.

The following table shows just how high your traditional investment returns need to be to match the potential of salary sacrifice.

Marginal rate of tax	Investment returns required to match salary sacrifice
30%	22%
40%	42%
45%	55%

This table ignores all fees, charges, the Medicare Levy and any tax payable on withdrawal from the superannuation fund. Based on ATO 2007–08 marginal rates of tax shown on page 3.

What and when contributions can be made

		Member age		
		Under 65	Over 65 and under 75	75 and over
Contribution type	Personal	Any person, irrespective of their work status, may make personal contributions.	A member may make personal contributions if they have been gainfully employed for at least 40 hours in 30 consecutive days during the current financial year.†	Not allowed.
	Employer	An employer can make: <ul style="list-style-type: none"> mandated employer contributions (including SG and award contributions), and additional employer contributions (ie. over and above the mandated contributions, such as salary sacrifice). 	An employer can make: <ul style="list-style-type: none"> mandated employer contributions (including SG and award contributions), and additional employer contributions (eg. salary sacrifice) if the member has been gainfully employed for at least 40 hours in 30 consecutive days during the current financial year.† SG contributions aren't required for employees aged 70 and over.	Only mandated employer contributions required under an award or industrial agreement can be made.

† Once you turn age 65, we'll write to you each year to confirm your continuing eligibility to make contributions to super.



How is salary sacrifice and super taxed?

Salary sacrifice contributions are made from your before-tax salary and are considered to be employer contributions.

As your employer receives a tax deduction on salary sacrifice contributions, and earnings on all superannuation contributions accumulate in a concessionally taxed environment, when you eventually withdraw these amounts they may be subject to tax.

The amount of tax you may have to pay will depend on the components being withdrawn, your age and how you decide to use your benefit. For more information, please refer to the current **HOSTPLUS** Executive Member Guide Product Disclosure Statement.

You can download a copy at hostplusexecutive.com.au or call **1300 799 998**, 8am to 8pm, Monday to Friday.

From 1 July 2007, no tax will be payable upon retirement from age 60.

When can you access your super?

The Government places restrictions on when you can access your super benefits. Since 1 July 1999, all contributions made into super and all investment earnings must be preserved.

This means that your salary sacrifice contributions must be kept in a complying super fund until you permanently retire from the workforce on or after reaching your preservation age, or on satisfying one of the conditions of release listed below.

Preservation age

Your preservation age will vary between 55 and 60 depending on your date of birth.

Date of birth	Preservation age
After June 1964	60
July 1963 – June 1964	59
July 1962 – June 1963	58
July 1961 – June 1962	57
July 1960 – June 1961	56
Before July 1960	55

Conditions of release

Your preserved benefits may be paid when one of the following conditions of release is satisfied:

- permanent retirement from the workforce on or after your preservation age (see above)
- termination of employment after turning age 60 without necessarily retiring permanently
- reaching age 65 whether you have retired or not
- in the event of your death
- permanent disability

- on the grounds of severe financial hardship subject to certain conditions and trustee approval
- on compassionate grounds as approved by the Australian Prudential Regulation Authority
- on termination of your employment with an employer-sponsor where your preserved benefit is less than \$200, or
- on your permanent departure from Australia if you are an eligible temporary resident.

How do you start?

The decision to salary sacrifice depends on your personal circumstances. Before you make the decision, you should carefully consider all the implications, including the tax implications of entering into such an arrangement.

You should also consider seeking professional financial advice, such as that provided by Industry Fund Financial Planning. This way you can be sure that salary sacrificing will be to your advantage.

If you decide that salary sacrificing is the way to go for you, please:

- talk to your payroll manager to see whether your employer allows you to salary sacrifice into super
- determine whether the salary sacrifice arrangement will impact on other benefits you may receive and associated items, ie. overtime, leave loadings and Superannuation Guarantee.
- decide how much and how often you would like to salary sacrifice, and
- start salary sacrificing to super by completing the attached form and giving it to your employer. (If your employer has their own salary sacrifice form, use it instead.)

Remember: your employer must receive your completed salary sacrifice form before you earn the salary you want to sacrifice to super.

Free assistance from a financial professional

The benefits of being a **HOSTPLUS** Executive member are many. One of the most valuable is the access you have to the financial planning expertise of Industry Fund Financial Planning (IFFP) AFSL 232514.

In fact, during your first year as a **HOSTPLUS** Executive member, you're entitled to a free, initial financial plan for superannuation from IFFP.

Valued at \$550, your plan will include a range of super recommendations personalised to your financial situation.

And because IFFP financial planners aren't paid by commission, you can rest assured their advice is based on what can earn you the most, not them.

For more details and to arrange a consultation, simply call **HOSTPLUS** Executive on **1300 799 998**, 8am to 8pm, Monday to Friday.



