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AXIS FINANCIAL GROUP

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How will the 2009 Budget affect your Salary Sacrificing Strategies?

The 2009 Federal Budget included a number of proposed changes to super. However, perhaps the most restrictive proposal was the reduction of the annual concessional contribution cap. If the proposal passes through Parliament unchanged, it will significantly impact individuals using salary sacrificing strategies. This Informer discusses the proposed changes and what they will mean for you.

Salary sacrificing your super

It's no secret that salary sacrificing into your super offers significant benefits – particularly for those on higher incomes.

Not only can you reduce your personal tax liability, your contributions are taxed at the low rate of 15% (instead of your marginal tax rate) and you're continually chipping in to your super. Add to the equation that salary sacrifice contributions are automatically deducted by your employer and it seems to be a highly attractive solution to building your retirement savings, while minimising your tax.

However, with proposed changes to the annual concessional cap, salary sacrificing, while still offering tax benefits, will become slightly less attractive.

What are the proposed changes?

In the 2009 Federal Budget, the Government proposed to reduce the annual concessional cap from $50,000 pa to $25,000 pa from 1 July 2009.

The proposals also extend to those aged 50 or over, taking advantage of the transitional arrangements introduced in 2007, with the $100,000 pa cap halving to $50,000 pa from 1 July 2009 until 30 June 2012.

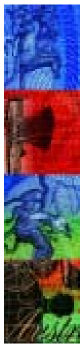
How does this affect me?

If you're currently salary sacrificing in to your super, there are a couple of ramifications.

First, the amount you can salary sacrifice starts to reduce once your income hits $100,000 pa and becomes significant when your income reaches $110,000 pa. Consequently, your annual tax saving is also severely diminished once your annual income reaches $110,000. To appreciate just how significant the reduction is, take a look at our table on the following page.

Second, all salary sacrificed contributions are considered to be "employer" contributions. This means they are added to your employer's compulsory 9% pa SG Contributions. Therefore, the intended halving of the cap becomes even more significant, with the outcome once again being that your sacrificed amount and tax saving is considerably lower.

The one potential redeeming factor is that SG Contributions are not required to be made by your employer **once your income exceeds $152,720 pa**. While some employers generously continue to contribute at incomes over this amount, many don't. In the case of the latter, you can, therefore, salary sacrifice the full amount of the annual cap.



The following table illustrates the impact of the new concessional cap on salary sacrificing. We've compared the amounts you can currently salary sacrifice using the current concessional cap of $50,000 pa combined with your employer's compulsory SG Contribution versus the amounts you'll be able to salary sacrifice from 1 July 2009 if the new cap of $25,000 pa is introduced:

Impact of New Concessional Caps for Individuals Under 50

		Up to 30 June 2009 ($50,000 pa)			From 1 July 2009 ($25,000 pa)		
Gross Salary (pa)	SG Contributions at 9% pa	Salary Sacrificed Amount	Salary Sacrifice Tax Saving (pa)	Difference in Monthly Net Income	Salary Sacrificed Amount	Salary Sacrifice Tax Saving (pa)	Difference in Monthly Net Income
$80,000	$7,200	$10,000	**$1,650**	$571	$10,000	**$1,650**	$571
$90,000	$8,100	$10,000	**$2,650**	$487	$10,000	**$2,650**	487
$100,000	**$9,000**	**$20,000**	**$5,300**	**$975**	**$16,000**	**$4,240**	**$780**
$110,000	$9,900	$30,000	**$7,950**	$1,462	$15,100	**$4,002**	$736
$120,000	$10,800	$39,200	**$10,388**	$1,911	$14,200	**$3,763**	$692
$130,000	$11,700	$38,300	**$10,150**	$1,867	$13,300	**$3,525**	$648
$140,000	$12,600	$37,400	**$9,911**	$1,824	$12,400	**$3,286**	$604
$150,000	$13,500	$36,500	**$9,673**	$1,179	$11,500	**$3,048**	$561
$152,720	**$13,745**	**$36,255**	**$9,608**	**$1,768**	**$11,255**	**$2,983**	**$571**
$160,000	$13,745	$36,255	**$9,608**	$1,768	$11,255	**$2,983**	$549
$170,000	$13,745	$36,255	**$9,608**	$1,768	$11,255	**$2,983**	$549
$180,000	$13,745	$36,255	**$9,608**	$1,768	$11,255	**$2,983**	$549
$190,000	$13,745	$10,000	**$3,150**	$446	$11,255	**$3,545**	$507
$200,000	$13,745	$20,000	**$6,300**	$891	$11,255	**$3,545**	$502

As you can see, the dollar impact is considerable. However, the impact is even **more detrimental for those aged 50 or over**, who are using the transitional arrangements to play catch-up with their retirement savings.

Not only will their amounts drop to those indicated in columns three to five in the above table as their concessional cap halves from $100,000 pa to $50,000 pa, they will also have less time than those under age 50 to boost their retirement balances. This presents the dilemma of how to ensure their retirement savings are at a level that will sustain them comfortably throughout retirement. The most obvious option is to remain in employment longer and, thereby, defer retirement – the Government's overall long term intention for Australians.

What about Transition to Retirement?

If you're using a salary sacrificing strategy in conjunction with a Transition to Retirement (TTR) pension, the amount you can contribute will naturally be impacted by the proposed changes.

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However, even with the intended reduced concessional cap, the benefits of this combined strategy remain attractive.

Many people enjoy using a TTR strategy for the enormous flexibility they obtain. Not only does your money continue to grow in a reduced tax or nil tax (if you're 60 or over) environment, your contributions are taxed at the low rate of 15%, you may be eligible for tax rebates and you can continue to build your retirement savings by making contributions.

What's more, you can maintain your existing after-tax income (and lifestyle!), by drawing down on your super, without having to retire.

Do I need to do anything?

If the proposals to the concessional cap pass through Parliament unchanged, from 1 July 2009 not only will the amount you can salary sacrifice reduce considerably, so will your tax savings. **This means you have a small window of opportunity to take advantage of the current concessional caps of $50,000 pa and $100,000 pa (for those aged 50 and over)**.

If you'd like to set up a salary sacrifice arrangement prior to 30 June 2009, simply speak with your employer. Alternatively, if you already employ a salary sacrifice strategy, you may want to ensure you've sacrificed up to the current caps of $50,000 pa and $100,000 pa by 30 June 2009.

Keep tabs on your contributions

Remember that it's up to you to keep a tally of how much you contribute into super each year. Now, more than ever, you'll need to remain vigilant in this regard.

If the proposed concessional cap is halved from 1 July 2009, your salary sacrificed amounts will peak sooner than is currently the case.

If you exceed the concessional caps, you'll be taxed heavily on these amounts at 46.5% including the Medicare Levy. The excessive amounts will then automatically be invested as non-concessional contributions.

Ask AXIS Financial Group

If you have any queries about how the proposed changes to the concessional cap may affect your retirement strategy or if you need guidance or advice about your retirement strategy, please contact our friendly Advisory Group or Technical Services team on (08) 9426 5800 or 1800 111 299 or email us at: **mail@axisfg.com.au**.

If you have any questions regarding the information in this bulletin, please contact your adviser:

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