Still a super strategy

Salary sacrifice remains a great way to pump extra money into superannuation, writes **Anthony Keane**

SALARY sacrifice is no longer the only way for employees to pump extra money into superannuation and claim a handy tax deduction, although it may still be the best.

New rules that allow anyone under age 75 to make tax deductible super contributions at any time during the year – up to a maximum of $25,000 per person – have been broadly welcomed for delivering extra flexibility to savers.

However, the forced saving element of salary sacrifice and other benefits mean it remains an important strategy, according to super specialists.

Salary sacrifice is known as a pre-tax or concessional contribution, where your deposits are taxed only at 15 per cent rather than your marginal tax rate of up to 47 per cent.

Until July this year, employees had to set up salary sacrifice arrangements in advance to get the same tax benefits that self-employed people have enjoyed for years. But now that tax-deductible contributions can be injected at any time, would you trust yourself to save $5000 during the year and deposit it in super next June, instead of spending it on something fun?

If, instead, it's $100 a week going into super before tax gets deducted from your wage, it's much easier to stick to.

"As humans, we tend to spend money as it comes in and don't have the discipline to put it aside for the end of the year," financial strategist Theo Marinis said.

He said salary sacrifice also spread out deposits over the year, a process called dollar-cost-averaging that lowered risk by removing the chance of one big deposit going in just before financial markets fell.

"Compound interest plays a role as well – the money is in there and is compounding for longer," Mr Marinis said.

And salary sacrifice delivered tax benefits immediately through its lower tax rate on gross wages, rather than people having to wait until after the financial year to get money back in via a tax refund, he said.

JBS Financial Strategists senior financial adviser Glenn Malkiewicz said salary sacrifice was a commitment to save. "People's impulses can get the better of them," he said. "The flexibility the government has provided with the rule changes is great, but it doesn't mean you will do it." Mr Malkiewicz said salary sacrifice locked away money to grow over many years for your retirement.