



EMPLOYER SUPERANNUATION CONTRIBUTIONS

EFFECTIVE FROM 1 JULY 2008

Using ordinary time earnings to calculate the Superannuation Guarantee

From 1 July 2008 employers have to use ordinary time earnings as defined in the *Superannuation Guarantee (Administration) Act 1992* ("SGAA"), to calculate super guarantee contributions for their employees.

This ensures all employees are treated the same for super guarantee purposes.

If an employer is currently using an earnings base other than ordinary time earnings, to calculate super guarantee contributions, you must start using ordinary time earnings for all employees from 1 July 2008.

Why the change?

Some employers currently pay superannuation on an earnings base that existed before the superannuation guarantee was introduced. This means an employee may be paid lower superannuation contributions (as a proportion of total remuneration) when compared with another employee in similar circumstances.

The new law standardizes the earnings base to ordinary time earnings for all employees.

What are ordinary time earnings?

Ordinary time earnings are generally what employees earn for their ordinary hours of work, including:

- Over-award payments
- Commissions
- Shift loadings
- Allowances, and
- Paid leave

Please see the checklist for salary or wages and ordinary time earnings at the end of this document.

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Ordinary hours of work is not limited to any set number of hours e.g. 38 hours per week or to hours worked within specified hours. Ordinary hours can include night and weekend work

Ordinary time earnings does not include:

- Overtime
- Lump sum payments made to an employee on termination of employment, such as:
- Payments made in lieu of unused sick leave
- Unused annual and long service leave payments within the meaning of *the Income Tax Assessment Act 1997*.

Ordinary time earnings is also limited to a “maximum contribution base”. For the 2007/8 year the maximum contribution base is \$36,470 a quarter. Given this employers do not have to contribute more than 9% of \$36,470 for any employee for a particular quarter.

Calculation of the Superannuation Guarantee

Section 27 of the SGAA details the salary or wages that are not to be taken into account for the purpose of making a calculation under section 19 of the SGAA.

Section 27(2) specifically provides that:

“if an employer pays an employee less than \$450 by way of salary or wages in a month, the salary or wages so paid are not to be taken into account for the purpose of making a calculation, in relation to the employer and the employee, under section 19.”

As the definition of salary or wages pursuant to section 11 of the SGAA has a broader application with ordinary time earnings forming part of salaries or wages, payments specifically excluded from ordinary time earnings will not necessarily be excluded from the definition of salary or wages.

This means that while payments specifically excluded from ordinary time earnings will not be taken into account for the purpose of making a calculation of the Superannuation Guarantee, they will be taken into consideration for the purposes of meeting the \$450 threshold requirements of Section 27(2) of the SGAA. The following example is provided as further clarification of this point.



Example

An employee is paid ordinary time earnings of \$300 and overtime payments of \$200 in a calendar month. While the ordinary time earnings (\$300) does not meet the \$450 threshold for the calculation of the superannuation guarantee, the total salary or wages (\$500) does and as a result the employer would be liable to calculate the superannuation guarantee as 9% of the ordinary time earnings (\$300) for that particular month.

What do employers need to do?

- Review the components of salary or wages currently used for superannuation purposes for all employee groups
- Identify what is included and excluded from ordinary time earnings and salary or wages under the SGAA (see checklist below)
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- Identify employees ordinary hours of work
- Assess the cost impact of any change in salary or wage definition for budgeting purposes
- Consider the impact of OTE and salary or wages when reviewing remuneration arrangements
- Investigate how bonuses and commissions which are generally included within ordinary time earnings will be managed
- Plan an employee communication strategy
- Examine HR and Payroll systems and assess what changes may be required



Checklist for salary or wages and ordinary time earnings

Payment type	Salary or wages	Ordinary time earnings
Expense allowance that is paid with the expectation that it will be fully expended in producing income, for example, car allowance paid to real estate agents.	No	No
Allowances paid (other than a reimbursement of expenses or expense allowance)	Yes	Yes
Reimbursement of expenses (eg travel costs)	No	No
Bonuses that don't relate to specific performance criteria (eg Christmas bonuses)	Yes	No
Other bonuses	Yes	Yes
Commission	Yes	Yes
Over-award payments	Yes	Yes
Shift loading	Yes	Yes
Overtime	Yes	No
Casual loading	Yes	Yes
Benefits subject to fringe benefits tax	No	No

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Workers compensation payments, including top-up payments where no work is performed	No	No
Workers compensation payments, including top-up payments, paid by the employer, where work is performed	Yes	Yes
Top-up payments (eg when serving on jury duty or with reserve forces etc)	Yes	No
Payments when on maternity or paternity leave	Yes	No
Pay for annual holiday leave taken	Yes	Yes
Annual leave loading	Yes	No
Government (wage) subsidies (eg. Wage Subsidy Scheme allowance)	Yes	Yes
Pay for sick leave taken	Yes	Yes
Pay for long service leave taken	Yes	Yes
Accrued annual leave, long service leave and sick leave paid as a lump sum on termination	Yes	No
Payments in lieu of notice	Yes	No
Redundancy payments	Yes	No
Other payments paid by an employer on termination of employment	Yes	No
Director's fees	Yes	Yes

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Payments for performance in, or provision of services relating to entertainment, sport, promotions, films, discs, tapes, TV, or radio	Yes	Yes
Payments to a contractor who is an employee under the Superannuation Guarantee Administration Act 1992 (labour portion only)	Yes	Yes
Dividends	No	No
Partnership and trust distribution	No	No
Payments for entering into a restraint of trade agreement	No	No
Payments for domestic or private work under 30 hours per week	No	No

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