

TECHNICAL GUIDE NO 2

SALARY PACKAGING – WHAT ARE THE BENEFITS?

- 1 Salary packaging is a means of obtaining tax benefits for employees without any cost to their employer. These benefits are obtained by employees agreeing to forego some salary and the employer agreeing to pay expenses that would otherwise be payable by the employee from their after-tax income. This is especially beneficial where the item being paid for is either exempt from fringe benefits tax (FBT) or concessional tax for FBT, or the employer themselves is exempt from FBT up to a certain threshold for each employee. As a general guideline salary packaging of non-exempt benefits is most effective where the employee's package is greater than \$180,000, which is the threshold at which the marginal tax rate of 47.0% is the same as the Fringe Benefit tax rate.

- 2 As part of the tax reform process, the introduction of the GST has again created interest in salary packaging as another means of improving an employee's disposable income level. In general, where an employer pays expenses on behalf of an employee which are either exempt for FBT purposes or would otherwise be deductible to the employee (therefore no FBT payable), it will be more cost effective for the employer to package or provide the benefit if they are entitled to claim back the GST paid. In nearly all cases, an employee would be unable to recover the GST if they paid the expense personally.

- 3 Examples of expenses that are exempt include:
 - Superannuation
 - Taxi travel commencing or ending at the place of work
 - Laptop computers – one per year with no requirement for it to be used for business purposes
 - Mobile Phone Expenses
 - Briefcases
 - Electronic Diaries
 - In House benefits not exceeding \$1000.00
 - Small business car parking
 - Minor Benefits < \$300

- 4 Examples of “otherwise deductible expenses” include:
 - work related clothing
 - work related subscriptions
 - Home Office expenses

- 5 It is important to agree and document a salary packaging arrangement at the commencement of a tax year before earning the entitlement to receive the salary. Any salary sacrifice arrangement that involves directing salary to a benefit after it has been earned will be ineffective and the benefit will be taxed as salary.
- 6 The traditional practice of packaging motor vehicles on behalf of employees continues to be attractive, even to lower income earners particularly if they make a contribution towards the cost of the benefit to their employer. It is important to evaluate each motor vehicle packaging case separately to determine if there are overall tax benefits.
- 7 Most employees working for large public hospitals or private not for profit hospitals can salary sacrifice up to 30% of their salary to benefits without paying fringe benefits tax. This exemption is limited to \$17,000 of grossed up benefits equivalent to approximately \$9,000 of cash benefits. Employees of other public benevolent institutions can salary sacrifice up to \$30,000 of gross benefits equivalent to approximately \$16,000 of cash benefits.

Where salary packaged meal entertainment and entertainment facility leasing expense benefits are provided, these are capped at \$5,000.

- 8 Other “one-off” expense payments such as moving costs incurred from relocating from one place of employment to another will not be subject to fringe benefits tax if paid by the employer, and can save the employee a considerable amount of tax.

In summary, there are many instances where salary packaging could be utilised by your business to provide additional disposal income to your employees without an additional cost to you.

Please contact our office if you wish to discuss your individual situation and to determine how salary packaging could be of benefit to you.