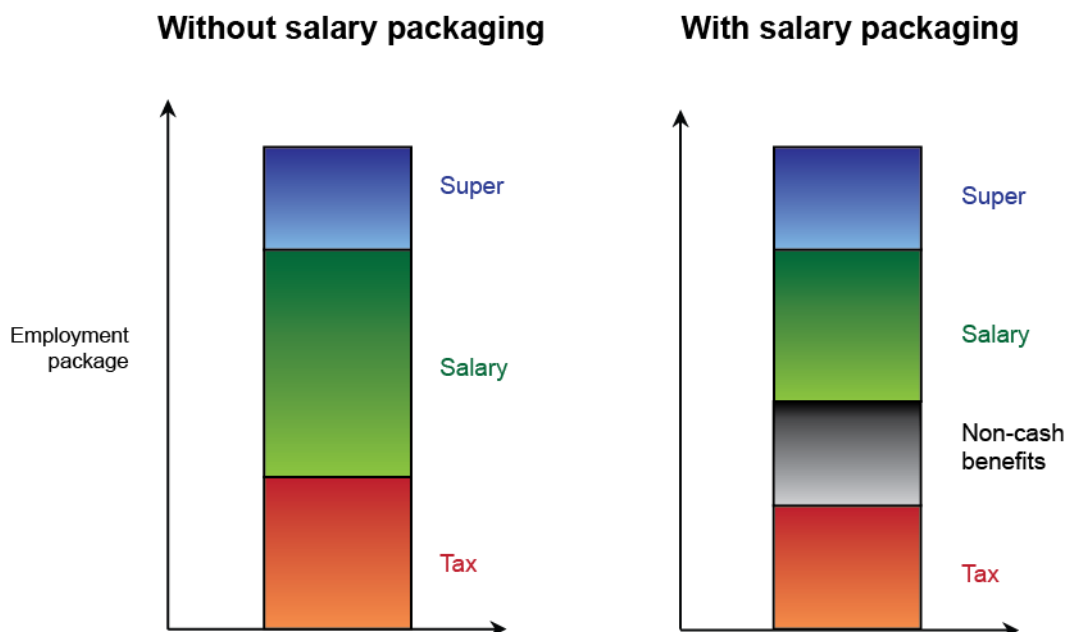


Salary Packaging

What is salary packaging?

When we are employed, we typically receive a regular salary which is paid directly to a bank account. Sometimes, it can be beneficial to forgo part of our cash salary and receive payment in the form of some other type of benefit instead. In this situation, you make an agreement with your employer to receive part of your payment for work in the form of a 'non-cash benefit'. This is called salary packaging.



Why salary package?

One of the main benefits of salary packaging is that it may allow you to reduce the amount of tax you have to pay. This allows you to receive a greater overall benefit from your employment, as the amount you save in tax you receive in non-cash benefits.

Salary packaging allows you to structure your income in a more effective way, maximising the money you earn, and reducing your tax.

Salary packaging reduces your cash flow

When you salary package, you are electing to take part of your salary in the form of non-cash benefits. This means that you will receive less money in your bank account each pay. For salary packaging to be an effective strategy for you, you must still be able to meet your costs of living, from your reduced cash flow.

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If you have nominated to salary package items you are already paying for with your after-tax salary, then your cash flow may increase.

What benefits can be salary packaged?

In theory, it's possible to salary package any benefit you like. However, only certain items will provide a tax benefit when packaged. When you elect to package part of your salary, you are still required to pay tax. The amount and type of tax you pay depends on what you are receiving.

Non-cash benefits are generally subject to a tax called fringe benefits tax (FBT), rather than being taxed at your marginal rate.

Fringe benefits tax

Fringe benefits tax is the tax that applies to certain non-cash benefits. Your employer is required to pay the FBT and will do so by deducting the amount from your remuneration package.

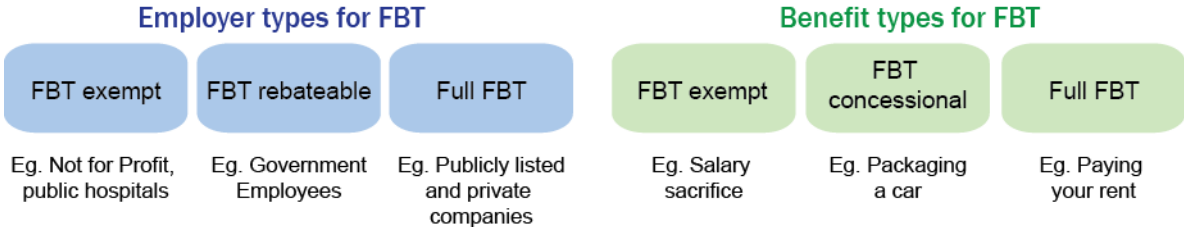
FBT is equal to the top marginal tax rate, which means that there should be no advantage in salary packaging. However, some fringe benefits are either exempt from FBT or are concessional, and some employers receive discounted FBT rates. It is in these situations that salary packaging is an attractive proposition.

Who pays fringe benefits tax, and how much?

Your employer is responsible for paying FBT and will generally pass that cost on to you by deducting the amount from your salary package.

The amount of FBT you have to pay depends on two things:

- Your employer's FBT classification; and
- The item (or benefit) that you salary package.



Employer types for FBT	
FBT exempt employers	<ul style="list-style-type: none"> • Not subject to fringe benefits tax, up to certain limits. • This allows them to provide employees with very attractive salary packaging benefits, as no FBT is payable on a wider range of benefits. • Examples of FBT exempt employers include public benevolent institutions (charities), certain government bodies, public hospitals.
FBT rebateable employers	<ul style="list-style-type: none"> • Eligible for tax rebates on a certain benefits packaged by their employees.

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	<ul style="list-style-type: none"> • This allows these employers to provide a higher level of salary packaging benefits than full FBT employers. • Examples of FBT rebatable employers include certain religious, educational institutions, trade unions and employer associations as well as certain non-profit organisations.
Full FBT employer	<ul style="list-style-type: none"> • All employers who are not classified as FBT exempt or FBT rebatable. • Most employers are classified as full FBT employers.

Benefit types for FBT

Similarly to employer FBT types, there are also three benefits categories for FBT purposes; exempt, concessional and full FBT benefits.

Benefit types for FBT	
FBT exempt items	<ul style="list-style-type: none"> • Exempt from fringe benefits tax, up to certain limits. • The most common example of an FBT exempt item is salary packaging to super, i.e. salary sacrifice.
FBT concessional items	<ul style="list-style-type: none"> • Attract reduced rates of fringe benefits tax. • Some tax savings can be gained by salary packaging FBT concessional item, however these savings are not as strong as packaging FBT exempt items. • Packaging a vehicle is the most common example of an FBT concessional item.
Full FBT items	<ul style="list-style-type: none"> • Full FBT applies to all items that are not exempt or concessional. • Fringe benefits tax is currently levied at the highest marginal tax rate of 47% plus the medicare levy

* Includes the additional two per cent Temporary Budget Relief Levy (TBRL), applicable from 1 July 2014 for a period of three years expiring at 30 June 2017.

What items are commonly salary packaged?

For people who work for 'full FBT employers' the benefits that are commonly salary packaged include:

- super contributions, i.e. salary sacrificing to super
- cars, including the running costs and ongoing maintenance costs
- car parking expenses, where your car is parked during the time that you are at work
- work related travel costs
- laptop/ notebook computer
- work related self education expenses
- professional subscriptions

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- work related mobile phone / electronic communication device

For those who work for 'FBT rebatable' and 'FBT exempt' employers, the range of benefits that can be tax effectively salary packaged is much more diverse. In addition to the benefits above, these people may also be able to package:

- accommodation costs
- personal bills, for utilities including electricity, gas, water, etc
- private mortgages
- living costs, and other personal expenses, up to certain limits.

The type of benefit, and amount of benefits you are able to package depends on which type of FBT employer you work for.

What benefits do not attract FBT?

Items that do not attract FBT are generally the best ones to package.

Benefits that do not attract fringe benefits tax	
Superannuation contributions	<ul style="list-style-type: none"> • Contributing part of your salary into super (subject to contribution caps). • The tax that applies to this money is super contributions tax typically of 15%.
Laptop and portable computers	<ul style="list-style-type: none"> • You can package one item of each type each year. • They must be used primarily for work purposes.
Work related items	<ul style="list-style-type: none"> • Protective clothing required for employment. • Work related subscriptions to trade and professional journals. • Professional memberships which are work related.
Professional education and development	<ul style="list-style-type: none"> • This includes non-reimbursed travel expenses and seminar costs.
Small gifts	<ul style="list-style-type: none"> • Minor benefits of less than \$100 that are provided infrequently
Taxi fares	<ul style="list-style-type: none"> • The cost of a single journey in a taxi to or from work for any reason or where the employee is sent home sick.
Income protection	<ul style="list-style-type: none"> • The insurance must relate wholly to the loss of income.

Salary packaging a car

A car is a common item to salary package. This is because cars are eligible for concessional FBT treatment. Furthermore, you can often choose the type of car and your employer may be able to provide you access to a fleet discount.

One way to package a car is through a novated lease.

A novated lease allows a business to lease a motor vehicle on behalf of an employee, with the responsibility for the lease lying with the employee and the lease payments being made from the employee's pre-tax income.

An agreement, called a 'novation agreement' is entered into between yourself, your employer and the lender. Under this agreement your obligation to pay the lease is transferred to your employer for the term of the agreement (provided you remain their employee, otherwise you will assume the responsibility for lease payments). The running costs and fringe benefits tax can then be deducted from your pre tax salary.

How is this benefit taxed?

Your fringe benefit tax liability is determined using the Australian Taxation Office's 'Statutory formula method'. A calculation is performed to determine the taxable value of the car. Your car benefit is taxed using a combination of the value of your car and the amount of kilometres you travel in the FBT year (1 April to 31 March).

A flat statutory rate of 20% applies, regardless of the distance travelled, to all car fringe benefits you provide from 1 April 2014

Contributing towards your car's costs to save tax

When you package a car, you can save tax by contributing to the operating costs of the vehicle.

The 'Employee contribution method' enables you to reduce the fringe benefits tax payable on your novated lease to nil by contributing an amount (using your take home salary) equal to the operating costs of your car. Any payment you make will reduce the otherwise taxable value on a dollar for dollar basis.

Salary packaging your travel expenses

You can salary package travel expenses without having to pay fringe benefits tax, if the travel is business related. For any part of your trip that is personal, or if your spouse accompanies with you, the travel costs can still be packaged, but are subject to FBT.

It is recommended that you keep travel diaries and documented evidence of your travel arrangement to support your business related costs.

Travel and transport costs that are generally exempt from FBT include:

- Travel associated with relocation.
- Travel costs to attend a job interview or selection test.
- Compassionate travel related to serious illness or a funeral, if the employee is living away from home or travelling away from home during the course of the employment.
- Frequent flyer programs (however fringe benefits tax applies to the cost of employee membership if paid or reimbursed by the employer).

Salary packaging your accommodation

Accommodation costs can be exempt from FBT if your accommodation and your usual place of employment are located:

- 40 kilometres from a town with a population between 14,000 and less than 130,000 or
- 100 kilometres from a town with a population greater than 130,000.

If your accommodation is in zone A or B (for income tax purposes) your accommodation must be located:

- 40 kilometres from a town with a population between 28,000 and less than 130,000 or
- 100 kilometres from a town with a census population greater than 130,000.

Public benevolent institutions and not for profit organisations

Public benevolent institutions and not for profit organisations can provide significant benefits to their employees through salary packaging. This is because any non-salary benefits you receive are not subject to FBT, provided the grossed up value of the benefits is not greater than \$17,000.

Rebateable employers

Rebateable employers can provide significant benefits to their employees through salary packaging. This is because any non-salary benefits you receive attract a rebate equal to the value of FBT liable, provided the grossed up value of your non-cash benefits does not exceed \$30,000.

Is salary packaging right for me?

Whether salary packaging is appropriate for you is completely dependent on your personal circumstances. It is therefore important for you to seek advice. Things that will be considered include:

- Your salary
- Your expenses
- Your employer type
- The item you wish to package
- Your employment agreement and whether your employer allows you to package the item

Importantly, you must ensure you have a strong understanding of your expenses and your surplus cashflow before considering a salary packaging arrangement.

Speak to your accountant

Salary packaging is a complex area. The success of a salary packaging strategy strongly depends on the tax implications. You will need to speak to your accountant to confirm the taxation implications of the salary packaging recommendations on your personal tax situation.

If this sounds like something you need to explore, or review what you already have, please feel free to fill in the form here: <https://www.fasttrackwealth.com.au/contact-us/>

Or contact Adam on 07 3263 4123.