



Can salary sacrifice work for you?

Salary sacrifice can be a great way to get a part of your remuneration in a form other than cash – and not personally pay tax on it.

Salary sacrifice (or salary packaging) is where you agree to take part of your wage as a benefit of some kind, equal in value to the salary it is exchanged for. The upside in you doing this is that your income tax is then based only on the reduced amount of salary that results.

If your employer agrees to go into a salary sacrificing arrangement with you, the benefit you get should of course be equal to the GST-exclusive value to the portion of salary that you give up, plus any FBT that is payable by your employer. Options that may be allowed by your employer include a car, shares or payments for your expenses, such as school fees, child care or home internet connection costs for example.

There's little restriction to the sorts of things you can ask for, but while you may have your own wish list, your employer might need to mull over whether or not any of them would fall within the ambit of the FBT regime. This is a crucial consideration for the employer, because while you get the benefit tax-free, the employer has to pay FBT on the value of the benefit.

Some of the common fringe benefits you can salary sacrifice are:

- cars, (you can talk to us about novated leases, cars and FBT)
- property (which includes shares)
- expense payments (such as the payment of your loan repayments, school fees, child care costs and home internet costs – this also includes reimbursements of certain expenses).

On top of these, one of the most popular ones is salary sacrificing superannuation – more on this below.

FBT exemptions

Basically, there are certain benefits that, because they don't generate more tax for your employer, might be more appealing. The following work-related items commonly provided in salary sacrifice arrangements are FBT-exempt benefits:

- a portable electronic device – eg. a tablet computer
- an item of computer software
- an item of protective clothing
- a briefcase
- a tool of trade.

FBT-exempt items include mobile phone, tools of your trade, protective clothing and so on. Laptop computers can be exempt within certain limitations, such as a work-only use.

Your employer will also need to report certain benefits (known as "reportable fringe benefits") on your annual tax payment summary where the total value of the reportable fringe benefits (that is, benefits that are subject to tax) provided to you that year exceeds \$2,000. Excluded benefits and certain types of non-excluded benefits don't count. Although it is shown on your income tax return, it will not affect your assessable income or Medicare levy. The total will however be used to calculate entitlements to income-tested government support programs or benefits.

Superannuation

Topping up your superannuation, in addition to the minimum 9.5% that your employer pays, is a hugely popular option for salary sacrifice arrangements. There are several benefits for going down this path. For starters, any super put away under such a scheme to a complying fund are not considered fringe benefits, and are not taxed to your employer as such. A bonus for your employer is that such super contributions also garner them an extra tax deduction (if you are under 75 years).

Within limits, super funds only pay tax on these contributions at a rate of 15%, which is probably less than the PAYG rates you would otherwise pay if you received the salary as cash. A super fund also only pays 15% tax on earnings (like interest) from the invested money, which again is probably less than what you'd pay if you earned interest on the money yourself.

Contact our office if you want to learn more about salary sacrificing for yourself or as an employer.