



SALARY PACKAGING

SOME GOOD BENEFITS STILL EXIST FOR ALL

Salary packaging enables you to receive part of your remuneration in the form of benefits rather than salary. Naturally, there is a consequent reduction in salary with your employer ensuring that your total employment costs are not increased.

There is a perception that only higher salary earners benefit from salary packaging. This is not the case. The range of benefits available provide opportunities for most salary levels.

In this article we highlight two benefits which can be packaged and will in most cases improve one's take home pay quite significantly. They are the packaging of motor vehicles and relocation expenses.

MOTOR VEHICLES

The tax effect

In a benefits review carried out recently it was reported that some 70% of employers are offering middle managers the opportunity to have a salary sacrificed car. This benefit is popular due to the concessional tax treatment of the benefit which arises.

The employer pays all the running costs relating to the vehicle as well as a Fringe Benefits Tax. The method of calculating the Fringe Benefit is the key to the tax break. It is based on the initial cost of the vehicle rather than the expenses incurred to run the vehicle. In many cases the benefit received is far greater than the value of the benefit being taxed.

Employees are saving between \$3,000 and \$10,000 a year in tax by packaging their cars instead of operating the identical vehicles outside their packages using after-tax salary. A person on a salary package of \$80,000 who packages a car worth \$30,000 and travels 15000 Km's per year can save around \$3,000 per annum.

Novated Leases

The biggest change that employers are making to packaged car policies at the moment is to switch from conventional leases to novated leases.



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A novated lease is a standard finance leasing agreement where an employee enters into an agreement with a Financier for the purchase of a motor vehicle. Under a Deed of Novation, the Financier allows the employer to assume liability for the monthly lease payments as long as the employee continues to work for the employer. Once the deed is in place, the motor vehicle is recognized as an employer provided motor vehicle for the purposes of the Income Tax Assessment Act and the Fringe Benefits Assessment Act.

The benefits of this type of lease are:

- The lease benefits described above apply.
- The employer has no risk of being left with un-wanted cars in the fleet.
- The employee gets to choose the model of car he prefers to drive.
- The employee gains some benefit from the GST tax credit obtained by the employer.

It is reported that even the ATO is urging its employees to take advantage of novated leases in their salary packages!

Associated Leases

Associated leases are also becoming more popular in packaging. An associated lease is a lease rental agreement where an Associate of the employee (eg. Spouse, partner) owns the vehicle and leases it to the employer. The vehicle is then provided to the employee on a fully maintained basis. Ownership remains with the associate although the employee has full use of the vehicle. Once the lease is in place, the vehicle is recognized as an employer provided vehicle for the purposes of both the Tax and Fringe Benefits Acts.

RELOCATION BENEFITS

The Fringe Benefits Tax Assessment Act 1986 (“FBTAA”) provides for substantial concessions where an employer pays for various costs associated with relocating an employee. These expenses can be met directly by the employer or passed on to the employee as part of a salary sacrifice arrangement.

From the employer’s point of view:

- All the costs incurred are tax deductible as if they were paid as salary and wages
- GST input credits are available where the employer is registered for GST and a tax invoice is evident.
- NO Fringe Benefits Tax is payable at all.



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From the employee's point of view:

- If the employee met relocation costs out of his own income then NO amount would be tax deductible and he would be taxed on his full salary package.
- By structuring his salary to include a sacrifice or reimbursement for relocation expenses he receives these amounts TAX FREE.

Example

Taxpayer has been asked to relocate in order to take up a new position with a new employer. He estimates that the costs associated with the relocation to be \$60,000. His employer has indicated that they are willing to package the relocation costs as part of his salary. They offer:

- To structure his salary to include an allowance of \$60,000 or
- To reimburse the Taxpayer for actual costs on the basis of documentary proof

If the Taxpayer takes the allowance:

The full amount of \$60,000 will be taxable and the taxpayer will not be entitled to any deductions for the costs associated with relocation as these will be fundamentally private, capital or domestic in nature.

If the Taxpayer chooses to be reimbursed for expenses up to \$60,000:

The employer will be able to fully deduct the amount of the reimbursement.

No tax will be payable by the Taxpayer and no Fringe Benefit Tax will be payable in relation to this amount.

Relocation benefits which the Taxpayer's employer can offer are as follows:

- Removal costs
- Costs relating to selling and buying dwellings
- Relocation transport
- Temporary accommodation and meals

The largest benefits are normally obtained from expenses incurred relating to transport of household goods and the stamp duty on the purchase of a new home.

All or some of these benefits can be offered to a new employee by either paying the expenses on behalf of the employee or by reimbursing the employee for actual expenses incurred. In many cases these costs are packaged into a salary as appropriate.

