

# Salary sacrificing for employees

Find out what salary sacrificing is, how to set up an effective arrangement and the tax implications of an arrangement.



## What is salary sacrificing?

Salary sacrificing is also known as salary packaging or total remuneration packaging. You and your employer agree for you to receive less income before tax and in return your employer pays for certain benefits of similar value for you. This means you pay less tax on your income.

A salary sacrifice arrangement reduces your taxable income, meaning you may pay less tax on your income.

You should seek financial advice before entering into a salary sacrifice arrangement.

## Benefits you can include

There is no restriction on the types of benefits you can include in a salary sacrifice arrangement. The important thing is that these benefits form part of your remuneration. The benefits replace what you would otherwise receive as salary.

Some of the benefits you can include in a salary sacrifice arrangement are fringe benefits. Your employer will have to pay fringe benefits tax (FBT) on the value of the benefit they provide you. If your employer has to pay FBT, they may ask you to make an employee contribution to reduce the FBT they have to pay.

Common fringe benefits include: cars, goods, shares and payment of your expenses for loan repayments, school fees and childcare costs.

### Example: Salary sacrifice of a motor vehicle

Sam earns \$65,000 a year and is considering entering into an effective salary sacrifice arrangement.

Under this arrangement, his employer will provide the use of a \$35,000 car and pay all the associated running expenses of \$11,500. The \$11,500 running expenses includes registration, which is GST free.

The GST exclusive value of the car expenses is \$10,509. A flat statutory rate of 20% applies for FBT purposes, regardless of the distance travelled.

The salary packaging provider calculates that:

- the taxable value of the car fringe benefit will be \$7,000 (which is the cost of the car multiplied by the statutory rate, in this case  $\$35,000 \times 0.20 = \$7,000$ ) and
- Sam will sacrifice
  - \$17,353 if no employee contributions are made
  - \$4,145 if employee contributions of \$7,000 are made.

Your employer won't have to pay FBT on exempt benefits, such as: a portable electronic device, computer software, protective clothing, a briefcase and a tool of trade.

Salary sacrificed super contributions under an effective salary sacrifice arrangement are considered to be employer contributions. These are not fringe benefits if your employer pays them to a complying super fund.

## Entering a salary sacrifice arrangement

You should seek financial advice before entering a salary sacrifice arrangement.

To have an effective salary sacrifice arrangement, you must:

- enter the arrangement before you perform the work
- have an agreement between you and your employer
- have no access to the sacrificed salary.

An effective salary sacrifice arrangement can't include salary and wages, leave entitlements, bonuses or commissions that you accrue before you enter an arrangement.

Expenses paid with direct debits from your pay are not salary sacrificed.

If the arrangement doesn't meet the requirements of an effective salary sacrifice arrangement, you pay tax on the benefits as assessable (or taxable) income at the time you receive the benefit.

The Fair Work Commission regulates employment agreements and conditions.

### **Agreement between you and your employer**

There should be an agreement between you and your employer. The contract is usually in writing but may be verbal.

Subject to the terms of any contract of employment or industrial agreement, you can renegotiate a salary sacrifice arrangement at any time.

Your contract of employment should detail your remuneration, including any salary sacrifice arrangement.

### **No access to sacrificed salary**

You can't access the salary amount you sacrifice for the period of your arrangement. If you don't receive a fringe benefit and it is cashed out, the amount becomes salary and you pay tax on the amount as normal income.

### **How salary sacrifice affects tax, super and government benefits**

Under a salary sacrifice arrangement, you should pay less tax than you would have without an arrangement. However, before entering into a salary sacrifice arrangement you should consider impacts and associated costs. This includes either:

- the amount to be sacrificed and any surcharges
- having the benefits reported on your income statement in myGov or payment summary.

A salary sacrifice arrangement may affect:

- the Medicare levy surcharge
- study and training support loan compulsory repayments
- some tax offsets
- child support payments
- some government benefits.

Your salary sacrificed super contributions are additional to your super guarantee entitlements. Your employer must still pay your full super guarantee entitlements as though there was no salary sacrifice.

You can't claim a tax deduction for an expense your employer pays for as part of your salary package.

### **Further information**

For further information please contact Gavin Knight on (02) 4341 8440 or [admin@paladinwealthgroup.com.au](mailto:admin@paladinwealthgroup.com.au).

Source: Australian Tax Office (ATO)

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