

Salary packaging (non-superannuation)

Salary packaging is an arrangement where you agree to give up part of your future cash salary in return for benefits of a similar value.

Benefits

- Salary packaging can increase your cashflow and your savings capacity because you pay some of your usual expenses with pre-tax income.

How it works

When an employer pays an employee with a benefit other than cash, the benefit is generally classed as a 'fringe benefit' and attracts fringe benefits tax (FBT) at the top marginal tax rate. For many employees, this means salary packaging will result in the same or more tax being paid.

However, salary packaging can be worthwhile where either the employer or the benefit receives concessional FBT treatment.

- If you work for an **FBT exempt employer**, you may be able to package benefits up to a specified threshold without being subject to the FBT. These employers include public benevolent institutions and some hospitals.
- If you work for a **rebatable employer**, you may be able to package benefits up to a specified threshold and only be subject to approximately half the rate of FBT. This is because rebatable employers are entitled to a rebate on FBT up to the specified threshold. Rebatable employers include certain religious or educational institutions and charities.
- You may be able to package **exempt items** that do not attract FBT if they are purchased primarily for use in employment. Exempt items include portable electronic devices, computer software, protective clothing, a briefcase and tools of trade.
- You may be able to package specific items that receive **concessional FBT** treatment. These items include a car or a car parking space, where only a portion of the value has FBT applied.

Packaging agreement

You need to confirm with your employer that you are able to salary package because it is not compulsory for employers to offer packaging arrangements. If your employer does allow salary packaging, you should also check what they require to put the arrangement in place.

It is recommended that you set out the terms of your salary packaging arrangement in writing. You should ensure that your agreement includes confirmation that your other entitlements (such as superannuation guarantee (SG) and termination payments) will not reduce as a result of your salary packaging arrangement.

Reportable fringe benefits

The grossed up amount of packaged benefits that exceed \$2,000 are reported on your payment summary. This reportable amount is not included in your assessable income, but it is included on your tax return for the purpose of determining your obligations or entitlement to certain benefits or concessions, including:

- The Medicare Levy surcharge
- Personal deductible superannuation contributions
- Superannuation co-contribution
- Spouse contributions tax offset
- Senior Australians and Pensioners Tax Offset
- Compulsory HELP and financial supplement repayments
- Child support assessments
- Income tested government benefits (such as Centrelink payments)

Consequences

- An employer is only obligated to calculate your SG entitlement on your cash salary. As salary packaging reduces your cash salary, it can also reduce your SG entitlement unless your employer agrees to maintain the same level of SG contributions.
- You should confirm with your accountant that the salary packaging arrangement is appropriate for your overall tax situation.

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