

Simple and effective salary packaging

Elizabeth Lucas



Does your organisation shy away from salary packaging because it "all sounds too hard" or the "administration is a nightmare"? Well read on and discover how simple it can be to offer your employees some really significant tax savings.

Many employers opt for the external bureau when offering salary packaging to staff, and this is one way to combat the administrative difficulties. However, it can actually be very easy to run a simple in-house system that generates the best savings for employees, without being a burden on your organisation.

What to package

The first step is to select a simple list of benefits for employees to package. The list should be short enough to be manageable and include the benefits that offer the best opportunities for savings to employees. Grant Thornton recommends the following for most non-profit employers:

- > superannuation (additional to the 9% compulsory employer contribution);
- > novated leases for cars
- > associate leases for cars
- > private expenses (GST-exclusive up to \$16,050 per annum)
- > meal entertainment and venue hire expenses

Further explanation is provided below in relation to associate leases for cars and meal entertainment and venue hire.

Keeping it simple

The key to a simple system is in how you handle each category of benefit:

- > **Cars** – have employees pay the running costs, use after-tax salary deductions to ensure no FBT and only cost to organisation is lease payments, pay associate leases through payroll to employees as agents, use our single page form for annual reconciliation process
- > **Private expenses and meal entertainment etc.** – reimburse past expenses lodged annually so no need to track progress and no year-end overs or unders

Associate leases for cars

The potential benefits of packaging an associate lease car come from:

- > the ability to use a car already sitting in the driveway (great for employees not in the market for a novated lease)
- > low value cars can produce great tax savings for employees on any income level
- > employees with associates in lower income brackets may achieve an income splitting effect

An associate lease is an arrangement between the employer, employee and the employee's associate (usually spouse). The associate either owns or leases a car and is responsible for paying all running costs. The car is then leased on to the employer under a fully maintained operating lease, and its use provided as a fringe benefit. The employee gives up salary, partly pre-tax and partly post-tax (to ensure no FBT), in respect of the lease payments.

...2

Example:

- > Employee has a pre-packaged salary of \$45,000 and marginal tax rate of 31.5%
- > \$40,000 car owned by associate
- > \$3,400 pa. running costs paid by associate
- > \$15,000 pa. lease payments to associate
- > 16,000 kms pa – all private travel

After-tax salary deduction required to ensure no FBT =

$$\$40,000 \times 20\% - \$3,400 = \$4,600$$

Associate net cash if package =

Lease income	\$15,000
Running costs	(\$3,400)
Depreciation	(\$5,000)
Net taxable income	\$6,600
(no tax due to low income offset)	

Therefore, net cash position =

Lease income	\$15,000
Running costs	(\$3,400)
Net cash	\$11,600

Employee net income if don't package =

Lease payments	\$15,000
After-tax deduction	(\$4,600)
GST on after-tax deduction	\$418
Salary sacrifice	\$10,818
Less tax at 31.5% =	\$7,410

Therefore, net cash if don't package =

Net salary	\$7,410
Running costs	(\$3,400)
Net cash	\$4,010

Saving if package =

Associate net cash if package	\$11,600
After-tax deduction if package	(\$4,600)
Net cash if don't package	(\$4,010)
Saving	\$2,990

After-tax saving every year = \$2,990

(Examples accurate as at July 2011)

Meal entertainment and venue hire expenses

Whilst “meal entertainment” has been around for a while, has your organisation realised the extent of packaging for venue hire (entertainment facility leasing expenses)?

These expenses are always exempt from FBT for exempt employers (eg. public benevolent institutions (“PBIs”)) and always rebatable for rebatable employers. This means they can be effective for employees of exempt employers on any income level and effective for employees of rebatable employers with taxable incomes above \$80,000 (2011/12).

“Meal entertainment” consists of food and drink consumed in a social/entertainment setting. It can include:

- > food and drink at a wedding, 21st birthday party, engagement party, or similar
- > restaurant meals
- > taxis to and from these events

“Meal entertainment” does not include:

- > general groceries for day to day needs
- > sporting tickets

“Venue hire” is the cost of hiring a venue for a social/entertainment event where the purpose is to provide entertainment by way of food and drink or recreation. For this purpose, recreation includes amusement, sport or similar leisure-time pursuits.

Venue hire can include:

- > hire of function room/reception centre for weddings, etc
- > hire of marquee for birthday party, etc
- > accommodation overnight in town after attending a show
- > accommodation on holidays, including hotel, motel, caravan etc.

“Venue hire” does not include:

- > purchase of a holiday home
- > membership fees for a timeshare club
- > cost of air travel

As an added bonus, these expenses are not reportable on employees’ payment summaries and may therefore also increase the employee’s eligibility for certain government benefits and concessions.

Example:

An employee of a PBI with a pre-packaged salary of \$45,000 and marginal tax rate of 31.5% who salary packages \$5,000 of entertainment expenses could achieve an after-tax saving of **\$5,000 x 31.5% = \$1,575**

(Examples accurate as at July 2011)

*Elizabeth Lucas is Associate Director – Tax, Grant Thornton Australia.
Elizabeth can be contacted at elizabeth.lucas@au.gt.com*

This article first appeared in associations forum news, Edition 19 - December 2008