

Salary sacrifice arrangements

What is salary sacrifice?

Salary sacrifice is an arrangement where an employee agrees to forego part of their future salary or wages in return for their employer providing benefits of a similar value. An employee can sacrifice their salary or wages into a variety of benefits, including superannuation.

What can I salary sacrifice?

- Motor vehicles (including finance payments, fuel and servicing)
- property (payments for real property such as land and buildings and purchases of small parcels of shares or bonds)
- loan repayments
- school fees
- child care costs
- rental payments for your primary place of residence
- home phone costs
- superannuation
- self education expenses

How does it affect my tax?

As an employee, you need to be aware of how entering into a salary sacrifice arrangement with your employer will affect you:

- you pay income tax on your reduced salary or wage (gross salary less benefits)
- your employer will most likely be liable to pay Fringe Benefits Tax (FBT) on the non-cash benefits provided to you
- salary sacrificed superannuation contributions are classified as employer superannuation contributions (rather than employee contributions) and are taxed in the superannuation fund under tax laws dealing specifically with this subject – currently taxed at 15%
- your employer is required to report certain non salary benefits on your payment summary at year end

Assessable income

You only pay income tax on your reduced salary, but you receive the reduced salary plus the benefits.

Under an effective arrangement, your income tax liability should be less than it would have been without such an arrangement. However, before entering into a salary sacrifice arrangement you should consider all of the associated costs, including the amount to be sacrificed and any surcharges or obligations that may arise from having the benefits reported on your payment summary like Medicare levy surcharge & Centrelink payments.

Fringe benefits tax

If there is any FBT payable on the benefits received, your employer is liable to pay that tax. However, as part of your salary sacrifice agreement, your salary will be reduced by the amount of FBT paid by your employer.

You do not pay any tax on the FBT amount, but it is used in calculating your income for Medicare Levy Surcharge and tax offset purposes.

Superannuation

Where contributions are paid to a complying superannuation fund, your gross wage may be reduced unless the salary sacrifice arrangement states otherwise. Your gross wage is the amount on which superannuation contributions made by your employer are calculated. So if you choose to salary sacrifice \$10,000 per annum, your gross wage will decrease by this amount and your employer is only required to pay 9.25% on the reduced gross wage and not on the \$10,000. Some employers will continue to pay the 9.25% on the pre superannuation salary sacrifice salary.

EXAMPLE – Salary Sacrifice of a motor vehicle (novated lease)

Sam, who earns \$65,000 a year, 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 pa.

The salary packaging provider calculates that:

- the taxable value of the car fringe benefit will be \$5,950 if the car travels between 25,000 and 40,000kms in the FBT year (1/4 to 31/3), and
- Sam will sacrifice
 - \$14,205 if no employee contributions are made, or
 - \$9,109 if employee contributions of \$5,950 are made.

The following table illustrates how salary sacrificing and employee contributions work by comparing the net disposable income for Sam in three scenarios.

- no salary sacrifice arrangement
- a salary sacrifice arrangement without any employee contributions, and
- a salary sacrifice arrangement where employee contributions are provided.

	1. Salary only (no packaging)	2. Salary + car (without employee contributions)	3. Salary + car (with employee contributions)
Annual remuneration	\$65,000.00	\$65,000.00	\$65,000.00
Less salary sacrifice	\$NIL	\$14,205.00	\$9,109.00
Taxable income	\$65,000.00	\$50,795.00	\$55,891.00
Less income tax (2012–13 rates)	\$12,672.00	\$8,055.38	\$9,711.58
Less 1.5% Medicare	\$975.00	\$761.92	\$838.36
Income after tax and salary sacrifice amount	\$51,353.00	\$41,977.70	\$45,341.06
Less employee contribution	NIL	NIL	\$5,950.00
Less car expenses	\$11,500.00	\$NIL	\$NIL
Net disposable income	\$39,853.00	\$41,977.70	\$39,391.06
Reportable fringe benefits amount for employee payment summary	NIL	\$11,121.74 (car fringe benefit taxable value of \$5,950 x 1.8692)	NIL

The following calculation is based on a \$30,000 car on a 4yr lease with an employee driving 20,000kms per year, earning \$55,000 per year:

	No Salary Sacrifice	With Salary Sacrifice
Amount financed	\$30,000	\$27,279.07
Residual value	\$11,252.62	\$10,299.65
Monthly rental incl. running costs	\$1,140	\$1,007.88
Annual payments	\$13,680	\$12,094.51

Fringe Benefits Tax	\$0	\$5,641.50
Total annual vehicle costs	\$13,680	\$17,736.01
Salary breakdown		
Gross salary	\$55,000	\$55,000
Salary Sacrifice	\$0	-\$17,736.01
Revised Gross salary	\$55,000	\$37,263.99
Tax on revised Gross salary	-\$10,521.35	-\$4,402.43
Car costs post tax wages	\$13,680	\$0
Annual take home pay	\$30,798.65	\$32,861.56
Annual saving	\$0	\$2,062.91

EXAMPLE – Salary Sacrifice of superannuation

Sally and Zoe both started work at Green Thumb Gardening, earning \$45,000 a year.

Zoe made a salary sacrifice arrangement to sacrifice \$10,000 of her income into her complying super fund.

Sally did not salary sacrifice any of her salary.

The following table shows the difference between Sally and Zoe's assessable income and rates of tax at the end of the 2012-13 income year:

	Sally	Zoe
Remuneration	\$45,000	\$45,000
Super salary sacrifice	-	\$10,000
Assessable income	\$45,000	\$35,000
Deductions	-	-
Taxable income	\$45,000	\$35,000
Income tax and Medicare levy payable	\$6,847	\$3,717
Tax on salary sacrificed super (paid by the superannuation fund)	-	\$1,500
Total tax and Medicare levy paid	\$6,847	\$5,217
Annual take home pay	\$38,153	\$31,283

Two benefits from the arrangement

1/ Income tax saved is \$1,630 (\$6,847 - \$5,217)

2/ Salary sacrificed contributions increase your super fund account balance by \$8,500 (\$10,000 - \$1,500 superfund tax). This means you are accumulating more super to fund their retirement

What does the employer have to do for a novated lease arrangement?

Operating costs - all operating costs paid by employer after being allowed for in the employee's gross wages.

Operating costs include registration, fuel, insurance, repairs and servicing.

Finance costs - monthly payments are paid by the employer after being allowed for in employee's gross wage.

Finance contract - this is taken out in the employees name.

If the employee leaves employment they become responsible for repayments and all ongoing costs.

Registration of vehicle is in employee's name.

Employee tax and group certificate

The employee's tax each pay period is based on the gross income after allowing for motor vehicle costs.

The employee's group certificate will need to include an amount in the Reportable Fringe Benefits box.

Fringe Benefits Tax (FBT)

Is paid by the employer after being allowed for in the salary package, as a deduction from the employee's gross wage.

The employer needs to lodge an FBT return in April each year.

Cost to employer

The employer comes out with no additional costs compared to what they would pay if they had paid a straight salary as all costs are deducted from the employee's salary.

WorkCover

Remuneration is defined as wages, superannuation and Reportable Fringe Benefits and thus WorkCover is paid on the fringe benefits provided.

Superannuation

Superannuation at 9.25% only has to be paid on the reduced gross wage.

The employer can choose to pay 9.25% on the gross wage which includes the Fringe Benefit amount.

GST (if employer is registered)

The GST paid on all costs is claimable by the employer and thus the salary deduction amounts should be net of GST figures.

There will be additional time required by employer's payroll staff to maintain the salary sacrifice records.