[Insert DD Month YYYY]

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| --- |
|  |

[Insert Client Name]

[Insert Client Position]

[Insert Company Name]

[Insert Company Address]

[Suburb State Post Code]

Dear [Insert Client Name]

**Re: Salary packaging in the 2023-2024 financial year**

# Background

Salary packaging is a process that allows employees to receive part of their remuneration in a form other than cash salary. In most situations, employees are offered the opportunity to forego part of their future entitlement to gross salary in return for the employer providing benefits of a similar cost to the employee.

For a salary packaging arrangement to be valid, a contractual agreement, called a ‘salary packaging arrangement’, must be entered into with your employer prior to the arrangement commencing, as set out in Taxation Ruling TR 2001/10.

Salary packaging can be tax effective for both employers and employees where the cost incurred by the employer in providing the benefit is less than what the employee would have incurred had they been paid gross salary and then purchased the benefit themselves from their net salary after tax.

Over recent years, access to various Fringe Benefits Tax (**FBT**) exemptions and concessions by way of salary-sacrificing have either been removed or become subject to greater restrictions. Salary packaging, however, continues to provide some opportunities in certain circumstances.

# Is salary packaging attractive to employees earning less than the top income threshold?

Where the benefit being provided by the employer is a taxable fringe benefit, salary packaging may still offer advantages to employees who are not taxed at the effective highest marginal tax rate of 47% (including Medicare levy).

Further, the benefits of salary packaging can still be maximised by the employee adopting an employee contribution strategy to reduce the taxable value of most fringe benefits including, amongst others, car fringe benefits.

The following table summarises when an employee contribution strategy should be adopted, in circumstances where the benefit being provided by the employer is a taxable fringe benefit, and the taxable value can be reduced by an employee’s post-tax contributions which are not reimbursed.

|  |  |
| --- | --- |
| **Taxable Income in 2023-2024** | **Contributions** |
| $0 - $180,000 | Post-tax employee contribution should be made. |
| $180,001 + | Employee contribution **not** required. Contributions can instead be made from pre-tax salary to offset FBT liabilities, but these amounts will not be regarded as an employee contribution to reduce the taxable value of the packaged benefit. |

Employers should have adequate policies and procedures in place to accurately capture and treat employee contributions, where applicable, and ensure amounts reported in their FBT returns are also treated appropriately for income tax purposes.

Salary packaging also remains beneficial where the benefit being provided by the employer provides concessionally taxed fringe benefits (e.g. car fringe benefits), exempt benefits (e.g. eligible work-related items) or additional salary-sacrificed superannuation contributions.

In this context, eligible work-related items are only FBT exempt where they are acquired by the employee primarily for work-related purposes. In this context ‘primarily’ means chiefly or principally and will usually be satisfied if the item is used more than 50% for work-related purposes.

# However, the employee cannot separately claim a deduction for the decline in value of such a depreciating asset under the capital allowance provisions.

# Eligible work-related items include a portable electronic device (e.g. laptop, notebook, tablet, portable printer or mobile phone), an item of computer software, an item of protective clothing, a briefcase or tools of trade.

# Where more than one item with substantially identical functions is provided to an employee, the exemption is limited to one item per employee each FBT year, unless a subsequent device is provided as a replacement for a device previously lost, destroyed or made obsolete by technological developments.

Additionally, the one item per employee limitation does not apply to portable electronic devices provided by an employer who would be regarded as a small business entity before or after the start of the relevant FBT year.The turnover for determining whether an entity is a small business entity for FBT purposes increases from less than $10 million to less than $50 million for benefits provided on or after 1 April 2021.

# It is important to note that there are still broader salary packaging opportunities available for employees of public benevolent institutions, public hospitals and FBT rebatable employers.

# Example

*An employee earning $150,000 p.a. for the 2023-24 FBT year enters into a novated lease to acquire a family sedan costing $34,000 on 1 April 2023 with lease charges being $9,070 (GST inclusive). The employee travels 23,000 kilometres during the year and incurs $4,400 (GST inclusive) in running costs.*

*The employee also chooses to package a new laptop computer valued at $2,500 (GST inclusive) and requests that an additional superannuation payment of $1,000 be contributed to the employee’s complying superannuation fund.*

*FBT on the car is calculated using the statutory formula method. No FBT is payable on the laptop computer (provided it is primarily used for work-related purposes) nor on the additional superannuation contribution of $1,000.*

*In the above scenario, the employee would be able to achieve an after-tax saving of $2,618. By adopting an employee contribution strategy, the after-tax savings increases to $4,135 (refer to Appendix A for an analysis of the benefits of salary packaging to the employee).*

While increasing the income tax thresholds is generally viewed as a positive for taxpayers, it diminishes the effectiveness of salary packaging taxable fringe benefits. However, with an employee contribution strategy in place and by salary packaging concessionally taxed and exempt fringe benefits, the benefits of entering into an effective salary-sacrifice arrangement can be maximised.

**Changes to salary packaging superannuation from 1 January 2020**

When implementing any salary packaging arrangement, it is important to note that salary packaged superannuation contributions do not reduce the amount of superannuation guarantee (currently 10.5%[[1]](#footnote-1)) otherwise payable by an employer. These rules were effective from 1 January 2020. It should also be noted that the superannuation guarantee rate will increase to 11% from 1 July 2023.

If you would like to consider a salary packaging arrangement, please do not hesitate to contact me on [insert telephone number of partner].

Yours faithfully

**[Insert name of Partner]**

**Appendix A**

|  |  |  |  |
| --- | --- | --- | --- |
| **Employee Remuneration** | **Employee Contribution Made** | **No Employee Contribution Made** | **100% Cash Salary** |
| Cash Salary | $127,203 | $115,592 | $135,747 |
| Employer superannuation contribution (10.5% of salary + packaged superannuation) | $13,461 | $12,242 | $14,253 |
| Packaged Benefit (i.e. cost to employer) |  |  |  |
| Benefit Cost – Car1 | $6,063 | $12,245 | - |
| Benefit Cost – Laptop2 | $2,273 | $2,273 | - |
| Benefit Cost – Superannuation3 | $1,000 | $1,000 | - |
| FBT | - | $6,6484 | - |
| **Total employer cost** | **$150,000** | **$150,000** | **$150,000** |
|  |  |  |  |
| Cash Salary pre-tax | $127,203 | $115,592 | $135,747 |
| Less Income tax payable  (incl. 2.0% Medicare Levy) | ($34,676) | ($30,346) | ($38,008) |
| Cash Salary after-tax | $92,527 | $85,246 | $97,739 |
| Less Cost to employee of acquiring benefits where not salary-sacrificed | - | - | ($16,820) |
| Less employee contribution | ($6,800)5 | - | - |
| Compulsory superannuation (Net of contribution tax) | $11,442 | $10,406 | $12,115 |
| Benefit Value 6 | $16,820 | $16,820 | $16,820 |
| **Total remuneration to employee after tax and employee contributions** | **$113,989** | **$112,472** | **$109,854** |

Note 1:

The cost to the employer of providing the car benefit is the GST exclusive value of the lease and running costs of the car (net of GST) less the GST exclusive value of any employee contribution:

|  |  |  |  |
| --- | --- | --- | --- |
| **Employee contribution made** | | **No Employee contribution made** | |
| Cost of providing car:  - lease fees (GST excl.) | $8,245 | Cost of providing car:  - lease fees (GST excl.) | $8,245 |
| - running costs (GST excl.) | $4,000 | - running costs (GST excl.) | $4,000 |
| - employee cont. (GST excl.) | ($6,182) | - employee cont. (GST excl) | nil |
| **Total** | **$6,063** | **Total** | **$12,245** |

The cost to the employer of providing a car benefit will also include the cost of the FBT. In this example, this is shown as a separate line item.

Note 2:

The cost to the employer of providing the employee with a laptop is the GST-exclusive value of the laptop as the employer would be entitled to an input tax credit on acquiring the laptop. In this case the cost would therefore be $2,500 x 10/11= $2,273.

Note 3:

Superannuation contributions will be taxed in the employee’s superannuation fund at 15%, provided the fund is a complying superannuation fund and the employees is not subject to the Division 293 tax.

Please note, from 1 January 2020, employee salary packaged superannuation contributions cannot be used to reduce an employer’s 10.5% superannuation guarantee obligation. Therefore, in this example, 10.5% superannuation contributions are also payable in respect of the $1,000 salary packaged superannuation, hence the additional $105 cost to the employer. As a result of this $105 cost, the employee receives an additional $89 benefit.

Note 4:

FBT is calculated as follows:

FBT Payable = (Cost of car \* statutory fraction#) \* gross up factor \* FBT rate

= $34,000 \* 0.20 \* 2.0802 \* 47%

= $6,648

# The former tiered statutory fraction has been replaced with a flat statutory fraction of 0.20 for new contracts entered into after 7:30pm 10 May 2011. Transitional measures continue to apply the former tiered strategy to pre-existing commitments under agreements entered into before 7.30 p.m. on 10 May 2011 which will not apply where there is a subsequent change to that commitment. For further details regarding the transitional rules, please refer to CPA Australia’s 2023 FBT Checklist.

Note 5:

The employee contribution is equal to the taxable value of the motor vehicle in order to reduce the FBT liability to nil. The taxable value of the motor vehicle is equal to the cost of the car multiplied by the statutory fraction. In this case this is $34,000 x 0.20 = $6,800. One-eleventh of the employee contribution received must be remitted as GST so that the only GST exclusive amount of the employee contribution is applied to reduce the taxable value of the car fringe benefit (i.e. $6,800 x 10/11 = $6,182).

Note 6:

The ‘benefit value’ is calculated as follows:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **With Packaging** |  |  |  |  |  |
|  | Cost to employer  (i.e. car and laptop) | Input tax credit | Employee contribution | Additional Superannuation (Net of Superannuation Contribution Tax) | Value of benefit provided |
| Employee contribution made | $8,336 | + $834 | + $6,800 | + $850 | = $16,820 |
| No employee contribution made | $14,518 | + $1,452 | + $0 | + $850 | = $16,820 |

1. The superannuation guarantee rate will increase to 11% from 1 July 2023. [↑](#footnote-ref-1)