

TAX-EFFICIENT REMUNERATION ARRANGEMENTS VIA SALARY SACRIFICE



A salary sacrifice arrangement is also commonly referred to as salary packaging or total remuneration packaging. It is an arrangement between an employer and an employee, whereby the employee agrees to forgo part of their future entitlement to salary or wages in return for the employer providing them with benefits of a similar value.

Requirements for an effective salary sacrifice arrangement

- The arrangement should be entered into before you perform the work. If the arrangement is put into place after the work has been performed, the salary sacrifice arrangement may be ineffective.
- There should be an agreement between you and your employer. It is advisable that you and your employer clearly state and agree on all the terms of any salary sacrifice arrangement. The contract is usually in writing, but may be a verbal one.

If you enter into an undocumented salary sacrifice arrangement, you may have difficulty establishing the facts of your agreement. Subject to the terms of any contract of employment or industrial agreement, employees can renegotiate a salary sacrifice arrangement at any time. Where you have a renewable contract, you can renegotiate amounts of salary or wages to be sacrificed before the start of each renewal.

The contract of employment includes details of your remuneration, including any salary sacrifice arrangement. This contract can be varied by agreement between you and your employer.



The sacrificed salary must be permanently forgone for the period of the arrangement. If a fringe benefit that has not been provided is cashed out at the end of a salary sacrifice arrangement accounting period, the amount cashed out is salary and is taxed as normal income.

Types of benefits that can be included

There is no restriction on the types of benefits that can be sacrificed. The important thing is that these benefits form part of your remuneration, replacing what otherwise could have been paid as salary.

The types of benefits generally provided in salary sacrifice arrangements by employers include fringe benefits, exempt benefits and superannuation.

Fringe benefits

Common fringe benefits include:

- cars
- loans
- property (including goods, real property such as land and buildings, and shares or bonds)
- housing or board
- expense payments (such as the payment of your loan repayments, school fees, child care costs and home phone costs)
- entertainment

Exempt Benefits

A number of benefits are exempt from FBT.

The following work-related items commonly provided in salary sacrifice arrangements are exempt benefits:

- a portable electronic device
- an item of computer software
- an item of protective clothing
- a briefcase
- a tool of trade

The work-related items exemption is limited to:

- items primarily for work-related use
- one item per FBT year for items that have a substantially identical function unless the item is a replacement item

Superannuation

Salary sacrificed superannuation contributions under an effective salary sacrifice arrangement are considered to be employer contributions which, when paid in respect of an employee to a complying superannuation fund, are not fringe benefits.

However, superannuation contributions made for the benefit of an associate, such as your spouse, are a fringe benefit. Similarly, contributions paid to a non-complying superannuation fund will be a fringe benefit.

Implications

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

- you pay income tax on the reduced salary or wages
- your employer may be liable to pay FBT on the benefits provided – this is typically passed on to the employee
- 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
- your employer may be required to report certain benefits on your payment summary

Disclaimer

This Fact Sheet has been prepared for general information purposes only and not as specific advice to any particular person. Any advice contained in this document is General Advice and does not take into account any person's investment objectives, financial situation and particular needs.



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