

Local Government Finance Professionals

Salary Packaging Opportunities

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Outline

- Salary Packaging Opportunities
 - What's in and what's out
 - Impact of recent car FBT changes
 - Simplifying the admin



What's in?

- Superannuation
- Cars – novated and associate leases
- Remote area housing
- LAFHAs (but not always as general offering)
- Airport lounge memberships



What's out?

- Otherwise deductibles
 - Only save GST & many GST-free anyway (eg. education)
 - Timing advantage can be achieved through PAYG variation
- Laptops, iPads, PDAs, etc
 - Some still offer because of history
 - But must be primarily for work purposes
 - Only save to extent of private use & GST
 - Timing advantage - can use PAYG

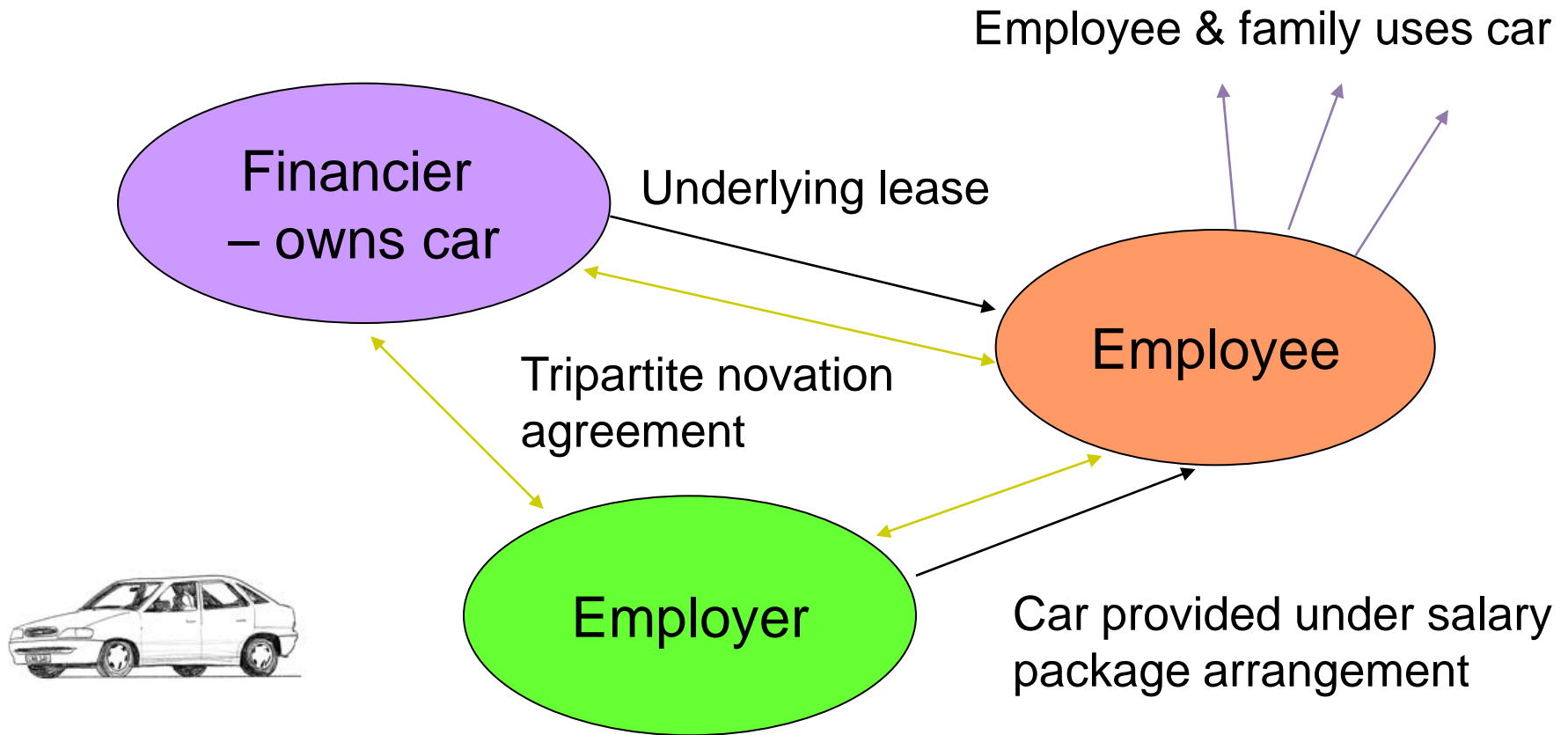


Cars

- Novated leases
- Associate leases
 - Additional advantages compared to novated leases
 - Can use car in drive-way now
 - Income-splitting effect



Novated car lease

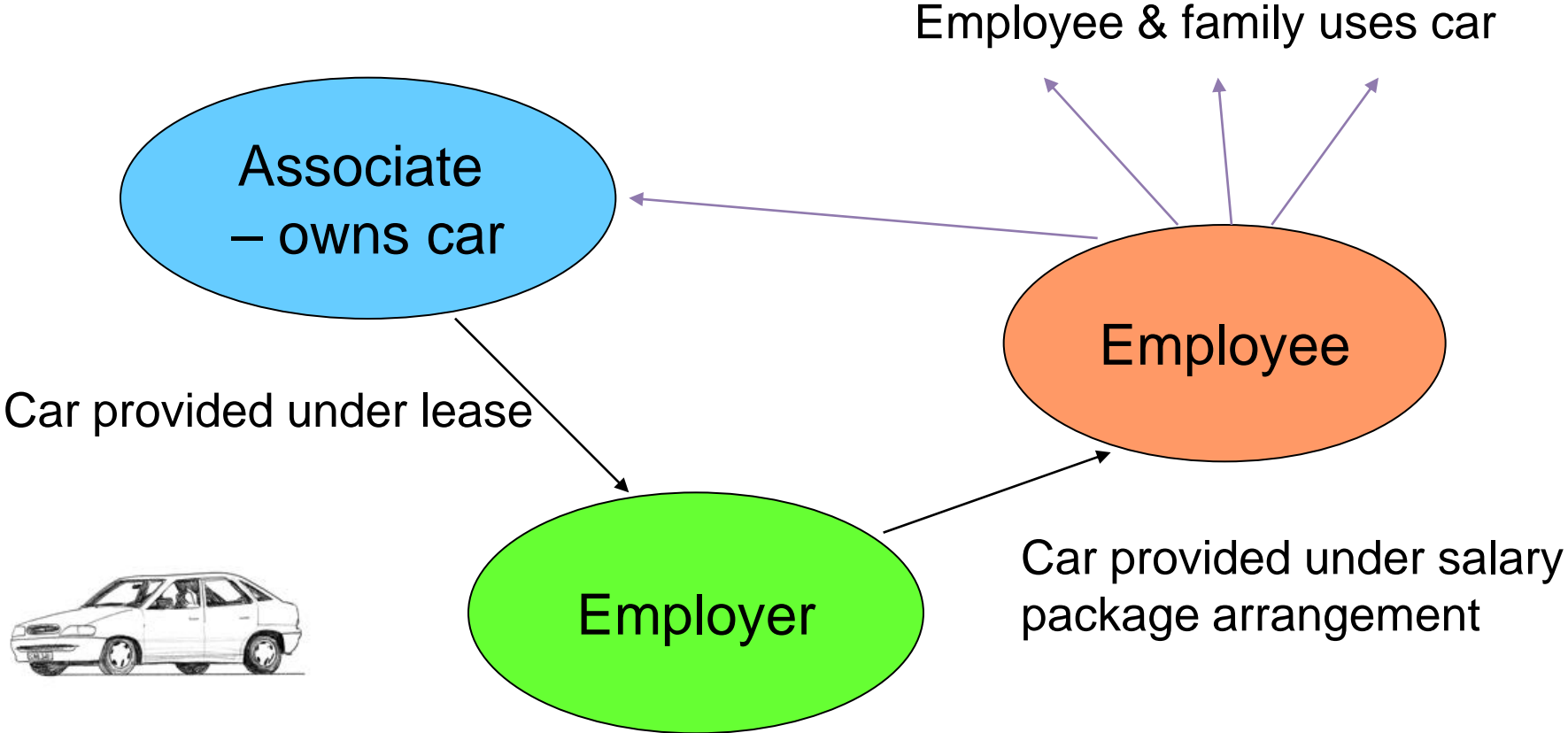


Novated car lease (cont'd)

- Car owned by financier
- Car leased to employee
- Novation agreement – employer takes over lease obligations for duration of employee’s employment
- Can be fully maintained lease, or employee can pay running costs
- Employee sacrifices salary
 - partly pre-tax
 - partly post-tax (so no FBT)
- GT calculator to estimate savings



Associate car lease



Associate car lease (cont'd)

- Car owned by employee's associate (not employee)
 - eg. spouse, other family member
- Car leased to employer
 - fully maintained operating lease
 - ie. associate pays running costs
- Employee sacrifices salary
 - partly pre-tax
 - partly post-tax (so no FBT)



Associate car lease (cont'd)

- Tax consequences for associate
 - Taxed on lease payments received (use market rates to establish lease payment amount, or costs plus 15%)
 - Deductions for running costs, depreciation, interest
 - May be under tax free threshold
 - Need an ABN – simple on-line process
 - Can choose whether to register for GST

Associate car lease (cont'd)

- Savings potential on low value cars through use of FBT calculation
- Savings potential on high value cars where associate has little or no other income (income splitting effect)
- Therefore, has appeal for employees of all levels
- GT calculator to estimate savings



Associate car lease (cont'd)

- Savings example: Assume employee marginal rate 39.5% & associate marginal rate 0%

\$70,000 car, 15,000kms = \$3,715 annual after-tax saving
\$35,000 car, minimal travel = \$1,946 annual after-tax saving
\$10,000 bomb, minimal travel = \$3,242 annual after-tax saving

Associate car lease (cont'd)

- Extremely simple to administer
 - Pay flat lease amounts through payroll to employee (as associate's agent)
 - Simple annual calculation and pay adjustment
 - Arrangement automatically ceases if employee leaves



Set-up and admin for cars

- Novated and associate leases:
 - On set-up, 3 pieces of paper:
 - Salary sacrifice request/agreement
 - Car calculation form
 - Lease agreement
 - Annually:
 - Car calculation form and payroll adjustment

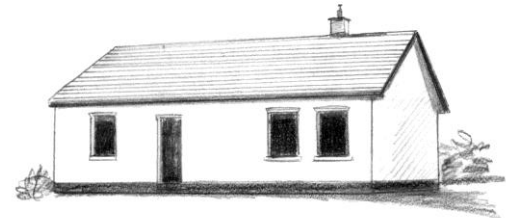


Impact of recent car FBT changes

- Phasing in to flat 20% statutory fraction
- New financial commitment triggers new rules
 - Focus is on legal contract – eg. new/amended lease or salary sacrifice agreement
 - Existing arrangements grandfathered
- If 2 different rates would apply in same year, new rate doesn't start til following year
- Cars with travel < 15,000kms pa now more attractive to package
- Cars with travel > 25,000kms pa now less attractive to package – but generally still savings

Remote area housing

- Tax exemption available for:
 - Accommodation held in employer name
 - Reimbursement of 50% of employee's rent
- Other benefits where FBT on 50% of amount packaged – useful to package where income >\$80,000
 - Mortgage interest
 - Residential fuel
 - Purchase cost of property
 - Holiday transport



Living away from home allowances

- Secondment and "commuter" style arrangements
 - Secondment: eg. 2 year fixed term contract
 - "Commuter": eg. live in rural area, have second temporary home close to work
- Need process to ensure eligibility of employee
- Prior periods can be covered
- Accommodation exempt if "reasonable" allowance or rent paid direct/reimbursed
- Food component exempt within ATO limits

Living away from home allowances (cont'd)

- Maximum exempt allowance could be in the order of \$40,000 p.a. or more
- Need correct wording in employment contract, letter of offer, salary sacrifice agreement or similar
- Need annual declaration from employee



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