Tax – Salary packaging (non-superannuation)

Salary packaging is an arrangement where you agree to give up part of your future cash salary in return for benefits of a similar value.

How it works

When an employer pays an employee with a benefit other than cash, the benefit is generally classed as a 'fringe benefit' and attracts fringe benefits tax (FBT) at the top marginal tax rate. For many employees, this means salary packaging will result in the same or more tax being paid.

However, salary packaging can be worthwhile where either the employer or the benefit receives concessional FBT treatment.

- If you work for an FBT exempt employer, you may be able to package benefits up to a specified threshold without being subject to FBT. These employers include public benevolent institutions and some hospitals.
- If you work for a rebatable employer you may be able to package benefits up to a specified threshold and only be subject to approximately half the amount of FBT. This is because rebatable employers are entitled to a rebate on FBT up to a specified threshold. Rebatable employers include certain religious or educational institutions and charities.
- You may be able to package exempt items that do not attract FBT if they are purchased primarily for use in employment. Exempt items include portable electronic devices, computer software, protective clothing, a briefcase and tools of trade.
- You may be able to package specific items that receive concessional FBT treatment. These items include a car or a car parking space, where only a portion of the value has FBT applied. Electric cars that meet certain criteria are exempt from FBT.

Packaging agreement

You need to confirm with your employer that you are able to salary package because it is not compulsory for employers to offer packaging arrangements. If your employer does allow salary packaging, you should also check what they require to put the arrangement in place.

It is recommended that you set out the terms of your salary packaging arrangement in writing. You should ensure that your agreement includes confirmation that your other entitlements will not reduce as a result of your salary packaging arrangement.

Reportable fringe benefits

The grossed up amount of reportable packaged benefits that exceed $2,000 are reported on your payment summary. The reportable fringe benefit amount is generally equivalent to the gross amount of salary you would need to have earned to obtain the same benefit at the top marginal tax rate.

This reportable amount is not included in your assessable income, but it is included on your tax return for the purpose of determining your obligations or entitlement to certain benefits or concessions, including:

- Carer Allowance
- Medicare levy surcharge
- Division 293 tax
- Dad and Partner pay
- Parental leave pay

- Family Tax Benefits
- Superannuation Government co-contribution
- Spouse contributions tax offset
- Senior Australians and Pensioners Tax Offset
- Compulsory HELP and financial supplement repayments
- Child support assessments
- Income tested government benefits (such as Centrelink payments)

Benefits

These may include:

- Salary packaging can increase your cash flow and your savings capacity because you pay some of your usual expenses with pre-tax income.

Risks, consequences and other important things to consider

These may include:

- An employer may only be obligated to calculate your entitlement to certain other benefits based on your cash salary. As salary packaging reduces your cash salary this may reduce other benefits and entitlements.
- You should confirm with your accountant that the salary packaging arrangement is appropriate for your overall tax situation.

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