



Making Your
Business Count

REPORTS

DECEMBER/JANUARY 2005

1. BUSINESS TOPIC

Fringe Benefits Tax (FBT) and Salary Packaging

What is Salary Packaging? It is an arrangement between you and your employer, where you agree to forego part of your salary or wages in return for your employer providing benefits of a similar value. This may consist of straight cash salary plus mandatory employer superannuation or may consist of a range of cash and non-cash benefits such as cars and housing.

What does Tax Ruling TR 2001/10 say about Salary Packaging?

- The Salary package should be in writing
- Any amounts cashed at the end of a packaging period will be salary and wages
- Salary sacrificed as superannuation will be employer contributions.
- Some awards or industrial agreements may limit the amount of sacrifice.

Implications of FBT Status of employers – When an employer is FBT exempt (eg hospitals) – Salary Packaging is beneficial for individuals with taxable income of \$6,000 and above for *fully taxable benefit* as well as exempt benefits as there is no FBT payable by employer.

- **When an employer is FBT Rebatable (eg non-for profit organization) (Receive rebate of 48.5% on FBT payable) –** The FBT rate is 33% . When an *employee has a marginal income tax rate of 43.5% or greater*, the marginal rate of 43.5% (or higher rate) is more than 33%. *Benefits subject to FBT*, eg home loans etc. are attractive to these employees.
- **Full FBT employers –** The advantages are limited to benefits which are *exempt from FBT*, have a concessional valuation or car benefits.

Which benefits are advantageous for Full FBT employers for salary packaging?

- *Superannuation* – Superannuation is not a fringe benefit. Superannuation is taxed at 15% which is lower than some of the marginal income tax rates.
- *Cars* – Salary packaging is advantageous particularly for individuals on high marginal tax rates and who travel a lot of kilometers for private purposes.
- *In-house benefits* – Concessions may be available for some benefits
- *Living away from home allowance (LAFHA)* – This is exempt from FBT. LAFHA is provided when an individual has to live away from their home for work purposes temporarily.

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- Relocation Costs – When an employee is relocated, some of the costs of the move can be exempt from FBT.
- Childcare at premises – The costs of childcare by employees is FBT exempt for childcare centre at premises for children under 6.
- Gymnasium on premises – Costs of gymnasium by employees is FBT exempt.
- Other items that are FBT exempt – eg mobile phone, lap-top and computer software, taxi-travel for employees.

2. INDIVIDUAL TOPIC

The Tax Office has released details of its compliance program for the 2005/06 year.

Under the program, the Tax Office's compliance work involves the increased use of its data matching activities. The Tax Office expects to scrutinise, through its risk analysis, over 750,000 individual taxpayers. The range of areas under scrutiny include:

- undeclared capital gains on land, vacant land, holiday homes, sales of shares and managed fund investments;
- the incorrect claiming of the main residence exemption;
- the incorrect use of the settlement date rather than the contract date by taxpayers and tax agents when calculating capital gains or losses on the disposal of a property;
- undeclared rental income;
- the overstatement of rental deductions, notably interest, and incorrectly claiming deductions against rental income for legal and other costs that should be treated as capital expenses;
- work-related expenses, including car, self education, home office, mobile phone and computer expenses — in relation to work expenses, the Tax Office will be paying special attention to claims made by: construction tradespeople, food processing workers, dance, drama and music instructors, school teachers and academics, and health care professionals.

3. SUPERANNUATION TOPIC

Pre-retirement Pensions – Transition to Retirement

Pre-retirement Pensions are a new measure to allow a person who has reached their preservation age and is still in the workforce to access their superannuation benefits in the form of a non-commutable income stream.





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What are the main attributes of pre-retirement pensions?

- Allows individuals to access their superannuation benefits upon reaching their preservation age without retiring.
- It can only be in the following forms- allocated pension or annuity
 - lifetime pension or annuity
 - life expectancy pension or annuity
 - market linked income stream (term – allocated pension).
- Superannuation Funds are not required to offer this product to their members
- There are no limits on the amount of superannuation you can access under this measure. Superannuation funds may impose their own restrictions on the amount of superannuation that can be accessed.

Preservation Age

<i>Date of birth</i>	<i>Preservation Age</i>
Pre 1/07/1960	55
1/7/60 - 30/6/61	56
1/7/61 – 30/6/62	57
1/7/62 – 30/6/63	58
1/7/63 – 30/6/64	59
30 June 1964 and after	60

4. ECONOMY

The economy is still steady. There is steady growth, inflation (2.5%), interest rates, wages growth and employment growth. Oil prices are having an inflationary impact. The world economy is growing strongly including the USA and China. European economy is growing but not as strongly as other countries.

