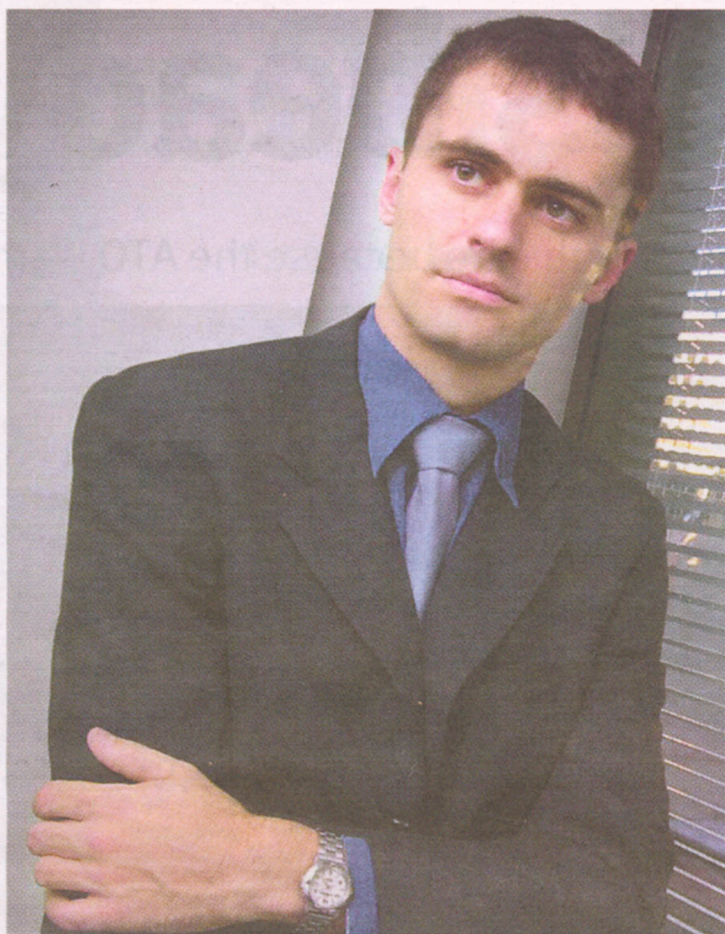


## TAX



**Savvy packaging:** Top marginal tax payers benefit, says Ken Mansell

### Calculation of package #1

	Packaged (\$)	Not Packaged (\$)
Car Running Costs	12,000	
FBT	8261.25	
Amount to package	20,261.25	0
<b>Consequence for the Employee</b>		
Salary (A)	100,000	100,000
Amount Packaged (B)	20,261.25	0
Salary after Package (A-B)	79,738.75	100,000
Tax and Medicare	26,053.29	35,880
Benefit Costs		12,000
Cash in Hand	53,685.46	52,120
Saving due to packaging	1565.46	

An employee earning \$100,000 is provided with a \$40,000 car by their employer. During the year running costs were \$12,000 and it was driven 20,000km (20% FBT rate)

Source: ICAA

# Look ahead to save on fringe

It's not too early to start planning for the next tax year-end, writes **Anna Fenech**

**F**RINGE Benefits Tax did not kill off salary packaging, it has merely spurned a growing list of FBT-exempt benefits.

With tax year-end looming, the opportunity for tax-saving salary packaging now is over, but it's a good time to review arrangements for the new financial year.

Taxpayers Australia director Peter McDonald says individual taxpayers often leave tax planning to the final few weeks of the financial year when it's something that should be done much earlier.

"Packaging can be quite complicated so it's not a tax year-end strategy and taxpayers should also seek individual advice," he says.

In simple terms, the idea of salary packaging is to offer the employee a benefit pre-tax, so they save on the income tax paid.

Superannuation salary sacrifice, car leases, laptop computers and mobile phones are the most commonly packaged benefits, but the

tax benefits vary as does the generosity of employers.

McDonald says the introduction of Fringe Benefits Tax in 1986 did not put a stop to employer-provided fringe benefits.

"On the contrary it caused them to become more imaginative, and over the years FBT exempt benefits have increased in number," he says.

The generosity of employers varies, but most employees working for big companies are offered some choice of packaging benefit.

"Fringe benefits are generally less attractive to people on less than the top marginal tax rate because they may end up paying more tax on a fringe benefit than they would pay on their income," says Ken Mansell, senior tax consultant at the Institute of Chartered Accountants of Australia.

The FBT treatment of fringe benefits can be divided into three

broad groups: nil FBT concessions for school fees, mortgage repayments and health insurance (considered private benefits); concessional tax benefits for cars (via novated leasing arrangements) and car parking; and exempt benefits like laptop computers, palm pilots, mobile phones, interest on investment loans, cabcharge accounts, employee share plans (up to a limit) and Living Away From Home benefits.

"Laptop computers for your kids at school can be packaged so as to be free from fringe benefits tax, income tax and GST," McDonald says.

Superannuation is FBT exempt — but additional contributions are subject to age-based limits.

Matthew Honan, managing director of salary packaging company Remunerator, says exempt benefits offer the highest tax savings for high income earners, followed by concessional tax benefits such as car leases.

"The most popular benefits are motor vehicle benefits, then salary sacrificing into superannuation followed by laptops," he says.

Mansell says many other benefits, such as school fees or childcare, can be packaged but there may be no tax advantage for the employee in doing that.

"Childcare is only an FBT exempt benefit if the employer sponsors its own childcare centre and few employers, bar a few very large companies, can afford to do that," he says.

"So, if the benefit isn't concessional tax or FBT exempt, then it becomes little more than a sophisticated bill payment method — but there probably won't be a net tax benefit to the employee," Mansell says.

Justin Pagotto, leasing manager at Count Wealth Accountants, says car leases have historically been offered to senior employees of large companies and public sector employers like universities.

"But, increasingly salary packaging companies are making it possible to offer these arrangements over a wider spread of employees, not just very senior people.

"Under the most common arrangement for calculating an FBT liability, business use is irrelevant — the FBT liability reduces on kilometres travelled whether it's for business or not," Pagotto says. The lowest FBT liability results when more than 40,000km is travelled in one year.

The employer would then claim as a business expense — lease payments, fuel and registration, as well as claim GST back on the lease payments.

"On the employee's side, because lease payments are taken out pre-tax, they can potentially reduce their taxable income," Pagotto says. Leases could be either a straight novated lease or a fully maintained lease, with the latter including expenses such as insurance, registration, and tyre costs in the package.

A further option, which is widening the availability of leasing arrangements for employees on lower marginal tax rates, is called recipient contributions.

"If you earn less than \$60,000 you can use what the FBT legislation refers to as recipient contributions to reduce the FBT payable," Mansell says.

"This is where the employee makes an after tax contribution to the employer for the benefit but can still end up better off for having packaged the benefit," he says.