

SALARY SACRIFICE

New Rules

“Salary packaging opportunities under the new rules have created greater opportunities by the change in the statutory formula for novated leases” This will provide welcome relief and additional tax savings associated with salary packaging a car.

Employees earning up to \$180 000 p.a. will enhance the savings associated with salary packaging a car under the new rules where the following conditions are satisfied:-

- They earn at least \$40 000 per annum.
- The car has a base value of no more than \$30 000.
- An after- tax employee contribution is made which reduces the taxable income to nil.

An employee earning at least \$40 000 p.a. is guaranteed to increase their net disposable income by salary packaging a car where they strictly meet the criteria above.

The employee benefits from the statutory formula method and avoids paying FBT by making an after tax employee contribution.

• For employees that travel more than 25 000km a year will be adversely affected. This is because the benefits they will receive will incur a higher FBT liability as a result of a higher statutory fraction when compared with the old rules.

•As you can see from the schedule below by making an employee after tax contribution you can increase your net income by \$1,757 to \$2,433.

Plant & Associates ^{pty} _{ltd}

Accounting, Tax and Business Advice

We offer the following Services

Taxation and Accounting

- Individual
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- Companies
- Trusts
- Self Managed Super Funds
- GST advice
- BAS preparation
- Book-keeping services

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- Negative Gearing
- Tax advice on Property Investments
- DIY Super
- Buying/Selling Businesses
- Asset Protection
- Structures
- Cash flow forecast and Budgeting
- Investment Strategies

ASIC Compliance

- Company Statements
- Changes to Company Details

Salary	Base value of car	Statutory Percentage	Notional Taxable Value	Saving to net disposable income	
				No contribution	Contribution
\$ 40,000	\$ 30,000	20%	\$ 6,000	(\$1,607)	\$ 1,757
\$ 50,000	\$ 30,000	20%	\$ 6,000	(\$107)	\$ 2,075
\$ 60,000	\$ 30,000	20%	\$ 6,000	\$ 393	\$ 2,075
\$ 70,000	\$ 30,000	20%	\$ 6,000	\$ 393	\$ 2,075
\$ 80,000	\$ 30,000	20%	\$ 6,000	\$ 393	\$ 2,075
\$ 90,000	\$ 30,000	20%	\$ 6,000	\$ 1,092	\$ 2,433
\$ 100,000	\$ 30,000	20%	\$ 6,000	\$ 1,537	\$ 2,433
\$ 110,000	\$ 30,000	20%	\$ 6,000	\$ 1,537	\$ 2,433
\$ 120,000	\$ 30,000	20%	\$ 6,000	\$ 1,537	\$ 2,433

Example of Salary packaging a car using the ‘new rules’

Objective

To demonstrate the additional tax saving that is achieved by an employee earning \$60 000 per annum who packages a full maintained car and makes employee contributions to the eliminate FBT payable on the car under the ‘new rules’.

Facts

Cathy is a business development manager with Plant Marketing Pty Ltd. She receives an annual salary of \$60 000. Cathy is considering salary packaging a \$30 000 fully maintained car with her employer under a novated lease arrangement after 10 May 2011 (New Rules). For FBT purposes, the distance that Cathy expects to travel is irrelevant because her employer has decided to skip the transitional rules and apply the single statutory fraction of 20%.

For salary packaging purposes, it is assumed that Cathy will travel about 18 000km’s per year.

Calculating the salary sacrifice amount

GST-exclusive car expense	\$	7,200
Lease Payment	\$	2,010
Repairs and Insurance	\$	2,150
Registration (GST-free)	\$	500
GST-inclusive car expenses	\$	11,860
Less: Input tax credits (1/11th of \$11 860 - \$500)	-\$	1,033
GST-exclusive car expenses	\$	<u>10,827</u>

	No	Contributions
FBT payable on car benefit	contributions	
Base value of car	\$ 30,000	\$ 30,000
Statutory fraction	x 20%	20%
Gross taxable value	\$ 6,000	\$ 6,000
Less : Employee contribution	- \$ -	\$ 6,000
Taxable value	\$ 6,000	\$ -
Gross-up rate	x 2.0647	2.0647
Grossed-up taxable value	\$ 12,388	\$ -
FBT rate	x 46.5%	0%
FBT payable	\$ <u>5,761</u>	\$ <u>-</u>

GST on employee contribution

Employee contribution	\$ -	\$ 6,000
GST rate	1/11th	1/11th
GST Payable on employee contribution	\$ -	\$ <u>545</u>

Employee Contribution

GST-exclusive car expense	\$ 10,827	\$ 10,827
FBT payable on car benefit	\$ 5,761	\$ -
Actual after-tax employee contribution	\$ -	-\$ 6,000
Salary sacrifice amount	\$ <u>16,336</u>	\$ <u>5,120</u>

Comparison of Packaging with and without employee contributions

No packaging by Cathy

Remuneration package			\$	60,000
Less : Tax on \$60 000	\$	11,550		
Medicare levy	\$	900	-	\$ 12,450
				<u>\$ 47,550</u>
Less : Car operating expenses			-	\$ 11,486
Net disposable income				<u>\$ 36,064</u>

Salary Packaging by Cathy without contributions

Remuneration Package			\$	60,000
Less : Salary sacrifice amount (see above)			-	\$ 16,336
Salary after sacrifice				<u>\$ 43,664</u>
Less : Tax on \$43 664	\$	6,649		
Medicare Levy	\$	655	-	\$ 7,304
Net disposable income without employee contributions				<u>\$ 36,360</u>

Salary packaging with employee contributions

Remuneration package			\$	60,000
Less : Salary sacrifice amount (see above)			\$	5,120
Salary after sacrifice				<u>\$ 54,880</u>
Less : Tax on \$60 000	\$	10,015		
Medicare levy	\$	823	-	\$ 10,838
				<u>\$ 44,042</u>
After-tax employee contribution			-	\$ 6,000
Net disposable income with employee contributions				<u>\$ 38,042</u>
Increase in net disposable income by salary packaging care and making employee contributions (i.e. \$38 042 - \$35 967)				<u>\$ 2,075</u>

. Free review of your Tax Needs

If you would like a free no obligation meeting to identify your needs, then please call 07 5596 5758 or email admin@plantandassociates.com.au