

Understanding Salary Packaging

Your 2018 Tax Return fact sheet

Salary and wages

You are taxed on your salary and wages. Your taxable salary and wage figure is included on your annual PAYG payment summary and excludes the salary packaging payments. Hence, your salary packaging money is never subject to income tax. For example, if you earn \$58,550 and salary package \$15,900 for expenses and \$2,650 for meals (or accommodation), your taxable salary figure for tax purposes is only \$40,000 (\$58,550 – \$15,900 – \$2,650).

Reporting salary packaging

Your salary packaging amount is shown on your PAYG payment summary. It is called the Reportable Fringe Benefits Amount.

As the term suggests, it is a 'reportable' amount – it is not income and not taxed. The amount reflects the value of 'benefits' provided to you during the 12 months, ending 31 March 2018.

The figure is what the Australian Tax Office (ATO) calls a 'grossed-up' amount. In other words, it is a gross salary estimate of the value of the salary packaging money paid to you. The ATO calculates the figure as follows:

**Salary packaging payments x 1.8868
= 'Reportable Fringe Benefits Amount'**

Expenses (e.g. \$15,900 x 1.8868)	\$30,000
Meals (\$2,650 x 1.8868)	\$5,000
Total	\$35,000

The Reportable Fringe Benefits Amount must be included in your Tax Return (refer IT1). The amount is not taxed, but it may be used by the ATO and other Government agencies for any income 'tests' (e.g. HECS / FEE-HELP, Family Assistance or Child Care Subsidy (CCS)).

Not Reported in 2017/2018

Not all salary packaging payments are reported. As a result, they are NOT included in any Government income 'tests'. Non-reportable payments include car parking and remote area housing related benefits.

Superannuation – 1 July 2017 to 30 June 2018 (refer IT2)

If you have salary packaged contributions into your superannuation fund, this is also reported. The amount is shown as Reportable Employer Superannuation Contributions and should be included in your Tax Return. Your superannuation fund handles the tax on contributions.

The value of superannuation salary packaging may be used to determine eligibility for certain Government supported programs. These include income support, family assistance, child support and superannuation co-contribution. Please discuss with your accountant or financial adviser.

Please note, if you are salary packaging Super, the maximum is \$25,000 (including the mandatory employer super, e.g. the 9.5%) from 1 July 2018.



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Payment Summary – Your Total Earnings

Your PAYG payment summary will show your total earnings from your employer (both taxable and non-taxable earnings).

This may include:

- Salary and Wages
- Reportable Fringe Benefits Amount
- Reportable Superannuation Payments (salary package only).

Your employer is also required to provide this information to the ATO annually and is usually pre-filled into your tax return (i.e. via myGov where you do it yourself or via your accountant).

For example, if you earned \$58,550 and salary packaged \$15,900 and \$2,650, the PAYG payment summary will show:

Salary and Wages (\$58,550 – \$15,900 – \$2,650)	\$40,000
Reportable Fringe Benefits (i.e. {\$15,900 + \$2,650} x 1.8868)	\$35,000

In the example, you are taxed on only \$40,000 and the \$35,000 is reported (but not taxed). However, when disclosing your income to Government agencies, you must disclose all values (including 'Reportable Fringe Benefits' and reportable superannuation).



What happens to the Reportable Fringe Benefits Amount?

For most people, nothing. However, it is relevant if you have a FEE-HELP debt, Centrelink (e.g. Family Tax Benefit A or B), child support or if you have no private health (hospital) insurance and you earn above an income threshold (\$90,000 for an individual or \$180,000 for a family in 2017/18).

The Reportable Fringe Benefits Amount is provided by the Tax Office to various Government agencies and they 'adjust' this figure in different ways.

For example, Centrelink will adjust your Reportable Fringe Benefits Amount down as follows:

- Reportable Fringe Benefits Amount x 0.53
- E.g. \$35,000 x 0.53 = \$18,550 (\$15,900 + \$2,650).

Centrelink reduce the reported figure back to its cash value (\$15,900 + \$2,650) and then they add this figure to your taxable income (salary) to determine your Centrelink entitlements. Centrelink will arrive back at the same gross salary (earnings) figure before salary packaging.

However, for Centrelink to do this correctly, they must have Your Reportable Fringe Benefits Amount (in this example \$35,000). Centrelink will adjust your figure down (\$18,550 in our example).

Therefore, for someone earning \$58,550 and salary packaging \$15,900 + \$2,650, Centrelink will 'adjust' your income as follows:

Earnings	PAYG payment summary (values reported)	Adjusted income
Salary and wages	\$40,000	\$40,000
Reportable Fringe Benefits	\$35,000 x 0.53	\$18,550
Total (value used)		\$58,550

Centrelink will assess this person on \$58,550 (Adjusted Income), as per the example. Income prior to salary packaging was \$58,550, which is the same as the 'adjusted' income figure. So, Centrelink entitlements should remain unchanged as a result of salary packaging (make sure you give Centrelink your correct information).

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Do you have an Education Debt, Child Support or Health Insurance?

If you have an Education debt such as FEE-HELP and HECS, pay or receive child support or you are a 'high' income earner (without private health (hospital) insurance). Government agencies will calculate your 'adjusted income' as wages plus your reported salary packaging (and super) as follows:

Adjusted Income

= Taxable Wages + Reportable Fringe Benefits Amount

Therefore, for someone earning \$58,550 and salary packaging \$15,900 + \$2,650:

Earnings	PAYG payment summary (values reported)	Adjusted income
Salary and wages	\$40,000	\$40,000
Reportable Fringe Benefits	\$35,000 x 1	\$35,000
Total (value used)		\$75,000

If you have a FEE-HELP debt

Your FEE-HELP payments will increase slightly. Send your details and gross income (before salary packaging e.g. \$58,550) to info@salary.com.au. Advantage will estimate the additional tax you may need to pay for the financial year to cover your FEE-HELP payment. You can provide this figure to your organisation's payroll to deduct each pay cycle.

If you have child support

Contact the CSA (Child Support Agency) and discuss how your income may impact on child support payments.

Company Car/Novated Lease – Tax Value

In most cases, if you have private use of a work vehicle or a novated lease, the taxable value of the vehicle will be included in your Reportable Fringe Benefits Amount where you do not make post-tax contributions towards the car via payroll deductions (commonly referred to as employee contributions). The taxable value is calculated using a Tax Office formula.

The taxable value of the vehicle is treated in the same manner as your other salary packaging. Hence, a single reportable figure is shown on your PAYG payment summary, being the sum of the two amounts (car fringe benefit and other expenses paid or reimbursed).

