

PBI Employer

SALARY PACKAGING FULLY TAXABLE ITEMS

Public Benevolent Institution (PBI) employees are eligible for a \$17,000 Gross Up value exemption from FBT.

The total grossed-up taxable value of benefits that can be provided to each employee per FBT year, without losing the exemption, is capped at \$17,000. If the total grossed-up taxable value of the benefits provided to an employee exceeds \$17,000, the full FBT tax rate applies on the excess.

The \$17,000 cap will apply even if you, the employee, are not employed for the full FBT year. Further, if you work for more than one unrelated PBI employer during the FBT year, the relevant salary sacrifice cap applies to each employer.

What are Fringe Benefits?

A fringe benefit is a 'payment' to an employee, but in a different form to salary or wages.

According to the fringe benefits tax (FBT) legislation, a fringe benefit is a benefit provided in respect of employment. This effectively means a benefit provided to somebody because they are an employee.

What is Fringe Benefits Tax ("FBT")?

FBT is a tax levied on benefit payments when they are paid via salary packaging.

As your employer is a PBI it is exempt from paying FBT up to a "grossed-up" value of \$17,000 per annum per employee. This allows employees to salary package and enjoy significant tax savings.

What is the "grossed-up" value?

The "grossed-up" value of a benefit is:

- The amount paid to the benefit items; plus
- FBT that would be paid on the benefit items if your employer did not have a tax exemption.

Benefit items amount (non-GST)	\$ 9,095
Notional FBT @ 1.8692	<u>\$ 7,905</u>
Grossed-up value	\$17,000

What are most common Fully Taxable Items?

- Credit Card Reimbursement
- Mortgage Repayments
- Rental Repayments
- Other expenses, including utilities, school fees, loans, holidays and most other household expenses.



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Example (Indicative only)
Gross Annual Taxable Income \$65,000

Description of benefits packaged

- You package a fully taxed benefit (e.g. Mortgage Repayments) to the value of \$9,095 per annum.

NOTES:

This example is indicative only. You should clarify any question you may have regarding this example by consultation with an accountant, financial adviser or Selectus consultant. An annual fee, which is also be packaged, is payable to Selectus fortnightly from your pre-tax salary.

	<u>Not packaged</u>	<u>Fully taxed item packaged</u>
	<i>you pay for the designated items from post-tax income</i>	<i>the same items are paid for from pre-tax salary</i>
Gross Salary	\$65,000	\$65,000
Mortgage Repayments	\$0	-\$9,095
FBT		\$0
Gross Taxable Salary	\$65,000	\$55,905
Tax (including Medicare levy)	-\$14,352	-\$11,336
Mortgage Repayments	-\$9,095	-\$0
Net Cash	\$41,553	\$44,569
Annual Net Packaging Benefit	Nil	\$3,016

As a result of salary packaging their mortgage payment, this employee has earned an additional \$3,016 (cash in hand) each year.





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Disclaimers and Disclosures

The provisions of this Fact Sheet and the benefits of packaging your salary using Selectus are subject to the provisions of your employment contract and your employer's policy regarding remuneration packaging.

This Fact Sheet is based on taxation and other laws that are current as at 1 July 2009. It contains general information only which is based on the continuance of present laws and rulings and their interpretation.

The information in this Fact Sheet is not intended as professional advice. You should obtain independent legal and financial (including taxation) advice on salary packaging as it affects your individual circumstances.

Benefits excluded from the \$17,000 cap

Regardless of the cap, the following benefits can be provided tax-free by a PBI employer:

- benefits that are exempt for all employers, for example additional personal superannuation and Meal Entertainment;
- nil taxable value benefits such as income protection insurance premiums, investment loan interest and work-related self education expenses.

An individual employee can therefore receive the above benefits FBT-free in addition to the \$17,000 cap.

Reportable Fringe Benefits

The Gross-up value of Fringe Benefits is reported as a Reportable Fringe Benefit (RFB). This amount is included on your Payment Summary and may affect some Government Surcharges and Payments. Selectus recommends you contact your accountant or financial adviser for more advice regarding RFB.

Certain benefits however, remain excluded from the RFB requirements such as meal entertainment.

Constraints to reaching the \$17,000 threshold;

You may not be able package benefits up to the \$17,000 grossed-up taxable value threshold due to:

- award (base salary) requirements;
- eligibility rules set by your employer such as limiting the percentage of non-cash benefits you can package; and/or
- rules set by your employer in relation to allowing for other (non-packaged) benefits to fall within the \$17,000 threshold.

How can your packaging benefit be maximised?

Maximising your packaging benefit means ensuring that the rate of Fringe Benefits Tax (FBT) applying to the salary packaged benefit is less than the rate of tax you would have paid through your taxable salary.

Because of the FBT exemption applying to packaged benefits, employees of PBI employers have a greater ability to gain from receiving remuneration as salary packaged benefits rather than cash salary.

Although each individual's situation is unique and needs to be separately considered, the following rules provide a general guide as to how the packaging benefit can be maximised:

Following is an example of what order you would salary package benefits:

Order	Type of Benefit
1 <i>then</i>	<ul style="list-style-type: none"> • FBT exempt items and • Otherwise deductible items
2 <i>then</i>	<ul style="list-style-type: none"> • Concessionally taxed fringe benefits such as a Novated Lease motor vehicle.
3	<ul style="list-style-type: none"> • "Type 1" and "Type 2" fully taxed fringe benefits up to the \$17,000 threshold.

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PBI Employees – treatment of fully taxed benefit types

<p>Fully taxed benefits that do not attract GST (Type 2)</p> <ul style="list-style-type: none"> • Home mortgage repayments • Personal loan repayments • Residential rent • Credit card payments • Aged and Disability care payments • Child care fees - 'off site' arrangements • Private health insurance • Investment loan (e.g. real estate property for non-commercial purposes) • Personal investments through a registered managed trust or fund • Private overseas travel • School and higher education fees (including HECS) • Utilities charges (e.g. gas, water, rates) 	<p>The \$17,000 grossed-up taxable value limit is equivalent to a benefit value of \$9,095 where you package "Type 2 fringe benefits" only. (Gross-up rate = 1.8692)</p>
<p>Fully taxed benefits that do attract GST (Type 1)</p> <ul style="list-style-type: none"> • Utilities charges (e.g. electricity, telephone) • Household insurance, Motor Vehicle insurance etc • Private travel (e.g. personal domestic holidays, home to work travel, car parking, bus fares, other modes of transport) 	<p>The \$17,000 grossed-up taxable value limit is equivalent to a benefit value of \$8,233 where you package "Type 1 fringe benefits" only. (Gross-up rate = 2.0647)</p>



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