

# Rebatable Employer

## SALARY PACKAGING FULLY TAXABLE ITEMS FOR HIGHER INCOME EARNERS



Rebatable employers are non-government, not-for-profit organisations that are eligible for a rebate of 48 per cent of the amount of FBT that would otherwise be payable.

The total grossed-up taxable value of benefits that can be provided to each employee per FBT year, without losing the rebate concession, is capped at \$30,000. If the total grossed-up taxable value of the benefits provided to an employee exceeds \$30,000, the 48% rebate cannot be claimed on the excess.

The \$30,000 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 rebatable / exempt employer during the FBT year, the relevant salary sacrifice cap applies to each employer.

### **What is a rebatable employer?**

Rebatable employers are not-for-profit organisations that are eligible for a rebate of 48% on the amount of FBT that would otherwise be payable.

Organisations that qualify for this rebate include:

- certain religious, educational, scientific or public educational institutions
- certain charitable institutions
- trade unions and employer associations
- non-profit organisations established for the encouragement of music, art, literature or science
- non-profit organisations established for the encouragement or promotion of a game, sport or animal races
- non-profit organisations established for community service purposes
- non-profit organisations established for the purpose of promoting the development of aviation or tourism
- non-profit organisations established

for the purpose of promoting the development of the agricultural, pastoral, horticultural, viticultural, aquaculture, fishing, manufacturing, or industrial resources of Australia;

- non-profit organisations established to promote Australian information and communications technology.

### **The \$30,000 cap**

From 1 April 2001, the total grossed-up taxable value of benefits that are subject to the 48% FBT rebate was limited to \$30,000 per employee per FBT year per employer, with a few particular exclusions.

The \$30,000 threshold will apply even if you are not employed for the full FBT year.

### **How is your FBT liability calculated?**

The formula to calculate your FBT liability is as follows:

$$\text{FBT liability} = \text{Gross FBT} - \text{FBT rebate}$$

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## Example (Indicative only) Gross Annual Taxable Income \$95,000

Description of benefits packaged (All costs are GST inclusive)

- You package a fully taxed benefit (e.g. Mortgage Repayments) to the value of \$16,050 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 <b>post-tax</b> income</i> | <i>the same items are paid for from <b>pre-tax</b> salary</i> |
| Gross Salary                        | \$95,000  | \$95,000  |
| Mortgage Repayments                 | \$0   | -\$16,050   |
| FBT                                 |   | -\$7,254  |
| <b>Gross Taxable Salary</b>         | <b>\$95,000</b>   | <b>\$71,696</b>   |
| Tax (including Medicare levy)       | -\$25,456   | -\$16,618   |
| Mortgage Repayments                 | -\$16,050   | -\$0  |
| <b>Net Cash</b>                     | <b>\$53,494</b>   | <b>\$55,078</b>   |
| <b>Annual Net Packaging Benefit</b> | <b>Nil</b>  | <b>\$1,584</b>  |

As a result of salary packaging their mortgage payment, this employee can earn additional \$1,584 cash in hand each year or is able to contribute another \$1,584 off their mortgage each year at no additional cost to the employee.





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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 2008. 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 \$30,000 cap

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

- benefits that are exempt for all employers, for example additional personal superannuation and employer provided child care;
- nil taxable value benefits such as income protection insurance premiums, investment loan interest and work-related self education expenses; and
- certain car parking benefits;

An individual employee can therefore receive the above benefits FBT-free in addition to taxable benefits up to a total grossed up taxable value of \$30,000.

## Reportable Fringe Benefits

The reportable fringe benefits tax obligations apply equally to exempt and non-exempt employers. In other words, a benefit will be included in your reportable fringe benefits amount even when the FBT rebate is claimed in respect of that benefit.

Certain benefits however, remain excluded from the reportable fringe benefits requirements. These include car parking benefits and meal entertainment benefits.

## Constraints to reaching the \$30,000 threshold;

You may not be able package benefits up to the \$30,000 grossed-up taxable value threshold due to:

- **Your annual taxable income;**
- **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 \$30,000 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 the FBT rebate decreases the rate of FBT applying to packaged benefits, employees of rebatable employers have a greater ability to gain from receiving remuneration as salary packaged benefits rather than cash salary.

Most Rebatable employees will benefit from salary packaging motor vehicles, Super and notebook computers etc, **however only higher income earners paying tax at a rate of 41.5% and 46.5% will benefit from salary packaging 'Full FBT Items' such as mortgage payments, rent and credit card payments.**

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<br><i>then</i> | <ul style="list-style-type: none"> <li>• FBT exempt items and</li> <li>• Otherwise deductible items</li> </ul>   |
| 2<br><i>then</i> | <ul style="list-style-type: none"> <li>• Items not taken into account for the \$30,000 threshold i.e. car parking, and entertainment facility.</li> </ul>      |
| 3<br><i>then</i> | <ul style="list-style-type: none"> <li>• Concessionally taxed fringe benefits such as salary packaged motor vehicles.</li> </ul>                               |
| 4                | <ul style="list-style-type: none"> <li>• "Type 2" fully taxed fringe benefits up to the \$30,000 rebate threshold if you are a higher income earner</li> </ul> |



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## *Rebatable Employees – treatment of benefit types*

| Type of Benefit   | Taxable position when salary packaged   |
|---|---|
| <b>Exempt benefits</b> <ul style="list-style-type: none"> <li>• Superannuation</li> <li>• Certain car parking</li> <li>• Employer provided child care</li> </ul>  | <b>Nil</b><br><br>Exempt and nil taxable value benefits can be packaged completely tax free with no impact on your \$30,000 grossed-up taxable value limit.   |
| <b>Nil taxable value benefits</b> <ul style="list-style-type: none"> <li>• Interest on investment loans</li> <li>• Income protection insurance premiums</li> <li>• Work related self education expenses</li> <li>• Selectus fees</li> <li>• Salary Packaging advice fees</li> </ul> |   |
| <b>Concessionally taxed benefits</b><br><b>“Type 1”:</b> <ul style="list-style-type: none"> <li>• Novated Leased cars</li> </ul>  | You may package concessionally taxed items above the \$30,000 cap where the employer's eligibility rules allow. FBT will be paid on motor vehicles, either at the reduced rate (48% rebate) or at the full rate, depending on what other benefits are provided. |
| <b>Fully taxed benefits that do not attract GST</b><br><b>Type 2:</b> <ul style="list-style-type: none"> <li>• Home mortgage repayments</li> <li>• Personal loan repayments</li> <li>• Residential rent</li> <li>• Credit card payments</li> </ul>                                  | The \$30,000 grossed-up taxable value limit is equivalent to a benefit value of \$16,050 where you package “Type 2 fringe benefits” only.   |
| <b>Fully taxed benefits that do attract GST</b><br><b>Type 1:</b> <ul style="list-style-type: none"> <li>• Utility Payments i.e. electricity, gas and phone</li> <li>• Insurance Payments</li> </ul>  | The \$30,000 grossed-up taxable value limit is equivalent to a benefit value of \$14,530 where you package “Type 1 fringe benefits” only.   |

# Selectus



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