Salary Packaging Information Kit

Catholic Schools Office
Diocese of Lismore

©
SALARY PACKAGING

Salary sacrifice involves an employee selecting a combination of cash salary and packaged benefits to suit their financial and personal circumstances.

Salary packaging benefits include:-

- having the employer make regular fortnightly salary package payments on behalf of employees.
- flexibility to receive remuneration in a way that may increase the benefit to the individual, while complying with the relevant taxation legislation.

HOW IT WORKS

Salary packaging involves the allocation of a proportion of your gross award income towards the provision of the cost of packaged benefits. The cost of packaged benefits includes the cost of the benefit together with the fringe benefits tax (FBT) payable on the provision of the benefit. The Catholic Schools Office is a rebate-able employer (up to a $31,177 grossed up limit per employee) for fringe benefit tax purposes and as such may provide tax savings for those employees who choose to participate in salary packaging (refer page 6 for examples of taxation treatment).

Each fortnight a designated amount of an employee’s gross wage is allocated on account of the employee for the provision of benefits and the fringe benefits tax payable thereon. The amount is either disbursed as directed on a fortnightly basis or accrued until a claim for payment/reimbursement is lodged (Form D). Accrued amounts must be cleared before the end of each FBT year (ending 31 March).

The employee’s award salary is reduced by the cost of the benefit and the fringe benefits tax thereon, with the residual amount paid each fortnight and taxed under the normal pay as you go provisions.

Employers are required to report each employee’s grossed up taxable value of fringe benefits (i.e. benefit value * 1.9608) and salary sacrificed superannuation contributions (from 1/7/09) on the Payment Summary. This enables the government to include fringe benefits and salary sacrificed superannuation when assessing eligibility for income tested allowances (e.g. Family Tax Benefit) and levies (e.g. HECS debt and Medicare surcharge). Note that fortnightly payroll PAYG withholdings are based on taxable salary (i.e. the salary sacrifice component is excluded). If you require additional withholding to cover HECs or Medicare surcharge liabilities etc arising from the reporting of Fringe Benefits and Salary Sacrificed Super, the additional fortnightly withholding must be requested by lodging a Withholding Declaration (currently available at most newsagents) with the CSO Payroll department.

Information on the application and effect of reportable fringe benefits and superannuation can be obtained from the applicable Government Dept or your accountant/financial advisor.
**SALARY PACKAGING AND THE OPERATION OF TAX LEGISLATION**

Taxation legislation regulates and defines the types of benefits that an employee can package and how they are treated for taxation purposes. Fringe Benefits Tax is payable by employers based on the assessed value of fringe benefits provided to employees and their associates. Under salary packaging arrangements all taxation (Fringe Benefits Tax or any tax equivalent) payable by the employer is met by the employee from their salary package.

**ELIGIBILITY**

School Support, Teaching, and Executive staff employed by the Trustees of the Diocese of Lismore in Schools or the Catholic Schools Office, and appointed for a period of not less than 12 months, are eligible to participate in Salary Packaging on a voluntary basis.

**FINANCIAL ADVICE and TAX CHANGES**

It is important that employees seek ongoing independent financial advice in respect to salary packaging, as the benefits and costs of salary packaging arrangements vary from individual to individual. Financial circumstances and taxation legislation change, and both have the potential for adverse consequences on existing arrangements.

**DISCLAIMER**

This publication has been prepared without consideration of the individual financial situation and needs of the employee. The Catholic Schools Office, each of their employees, agents, contractors and every person involved in the preparation of this publication expressly disclaim all liability for any loss or damage of whatsoever kind (whether foreseeable or not) which may arise from any person acting or relying on any statements contained in this publication.

**PACKAGED BENEFITS - AVAILABILITY AND EXCLUSIONS**

The types of benefits that are able to be packaged are:

- Contributions to complying Superannuation Funds *(See Page 7 re separate arrangements for contributions to the Australian Catholic Superannuation and Retirement Fund)*
- Home Mortgage Repayments *(Conditions apply)*
- Personal Loans
- Private Home Rentals
- School Fees
- Trauma/Life Insurance Premiums
- Private Health Insurance Premiums
- Private Travel
- Credit Cards - Credit card payments/expense reimbursement
- Other Expenses - Home Improvements
  - Rates
  - Electricity
  - Childcare
- Approved Full Fee Study Courses
- Insurance
- Private motor vehicle Insurance & Registration

**EXCLUSIONS**

**Investments**
No claim for the reimbursement of expenses which are related to the acquisition of financial instruments and/or investments will be permitted.

**Work Related and/or tax deductible Expenditure**
Employees should not claim expenses which are work related or expenses which are otherwise deductible under the Income Tax Assessment Act as a part of their Salary Packaging. Expenses paid through Salary Packaging, including motor vehicle running costs, are not claimable by the participant in their personal income tax returns.

**PERMITTED LEVEL OF SALARY PACKAGING**

The maximum fortnightly amount that can be allocated to the payment of fringe benefits is $611. Pre-tax superannuation contributions are excluded from this limit, however the total salary package (i.e. amounts sacrificed for the payment of fringe benefits, fringe benefits tax and pre-tax superannuation) is not to exceed 95% of the employee’s award salary.

**TAXATION – EFFECT OF SALARY PACKAGING**

On the following pages are examples of the different taxation treatment applied to fully taxed and concessionally taxed benefit payments (note: that the gross up rate used in the following examples is 1.9608 i.e. assumes type 2 benefit payments where no input tax credit is available).

In order to assess taxation benefits provided by packaging various benefits the employee will need to estimate their taxable income and the tax otherwise payable under the current effective marginal tax rates.

The after tax cost of the administration fee should also be factored in.

<table>
<thead>
<tr>
<th>Taxable Income</th>
<th>Rate% (With 2.0% Medicare) - at 1/7/2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0-18,200</td>
<td>0</td>
</tr>
<tr>
<td>$18,201-37,000</td>
<td>19.0</td>
</tr>
<tr>
<td>$37,001-80,000</td>
<td>32.5</td>
</tr>
<tr>
<td>$80,001-180,000</td>
<td>37.0</td>
</tr>
<tr>
<td>$180,001-</td>
<td>47.0</td>
</tr>
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</table>
Fully Taxed Benefits

Benefits that are fully taxed include expense payment benefits with the exception of Superannuation, Laptops and Approved Full Fee Study Courses.

Calculation of Fringe Benefits - Fully Taxed Benefits

<table>
<thead>
<tr>
<th>Benefit Description</th>
<th>F/N</th>
<th>Annual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expense Benefits</td>
<td>$100.00</td>
<td>$2,600</td>
</tr>
<tr>
<td>Grossed up Taxable FB Value</td>
<td>$196.08</td>
<td>$5,098</td>
</tr>
<tr>
<td>FBT @ 49.0%</td>
<td>$96.08</td>
<td>$2,498</td>
</tr>
<tr>
<td>Less Rebate @ 49%</td>
<td>$47.08</td>
<td>($1224)</td>
</tr>
<tr>
<td>Fringe Benefits Tax Payable</td>
<td>$49.00</td>
<td>$1,274</td>
</tr>
</tbody>
</table>

Employee Taxation Analysis#

(1) Packaged Benefits Rec’d $100.00 $2600
(2) FBT Withholding $49.00 $1274
(3) Total Package $149.00 $3874

# Effective rate of tax= 32.89% being
FBT Withholding (2) divided by Total Package (3) $49.00 / $149.00

Superannuation Contributions

Employer superannuation contributions are exempt from Fringe Benefits Tax. However, employer superannuation contributions are taxable in the superannuation fund on receipt, and may incur additional personal tax liability if income limits or contribution cap limits are exceeded.

From 1/7/09 employers are also required to report salary sacrificed superannuation contributions on employee Payment Summaries. This enables the government to include the amount in income tests applying to benefits and obligations administered by them eg. Medicare Surcharge, HECS debts, Dependant Tax Offsets etc and Centrelink and Child Support payments etc.

Superannuation planning involves complex taxation and financial planning considerations including:
- Taxation Treatment
- Inability to access funds before reaching permitted retirement age;
- Structure of Retirement Benefits.
- Date and age of retirement.

Accordingly it is strongly recommended that employees seek their own professional advice before proceeding with superannuation packaging.
Lismore Diocese Systemic School Fees

In his 2012/13 Mid-Year Economic and Fiscal Outlook (MYEFO) review released on Monday 22 October 2012, the Treasurer announced the removal of concessional fringe benefits tax (FBT) treatment for 'in-house' fringe benefits where it is accessed by way of a salary sacrifice arrangement. This measure will apply from 22 October 2012 for salary sacrifice arrangements entered into from its announcement on 22 October 2012, and from 1 April 2014 for salary sacrifice arrangements entered into prior to its announcement on 22 October 2012.

As a result, the salary packaging of systemic school fees will no longer attract the concessional treatment previously allowed because of the ‘in house’ fringe benefit status. School fees may continue to be packaged as a non-concessional benefit.

ADMINISTRATION

The administration of the salary packaging arrangements is undertaken by the Catholic Schools Office.

Contact Details: Catholic Schools Office
Attent: Doris Rosa
PO Box 158
LISMORE NSW 2480

Telephone: (02) 66 220422
Facsimile: (02) 66 220990
Email: accounts@lism.catholic.edu.au

The Administration Service will:
· Prepare the salary packaging agreement
· Process the claims for expense reimbursement
· Undertake to make payments under the Salary Packaging Arrangements once the appropriate documentation has been provided by the employee.

Importantly, no credit is extended by the Administration Service on any payment of a salary packaged benefit. i.e. If the balance on the employee’s salary packaging account is less than the amount of the payment then there will be:-
· No payment made; or
· The payment will be limited to the balance of the account.

· Provide salary packaging participants with detailed reports of their salary packaging account and account balance on a bi-monthly basis.
· Reconcile the salary packaging transactions.
· Answer and assist employees with any enquiries.

ADMINISTRATION FEES

Each participating employee will be charged a fortnightly administration fee for the processing of the Salary Packaging transactions and administration of the Salary Packaging Arrangements. As of 1/7/00 the fee is $9.90 including GST.
PROVISION OF PROFESSIONAL ADVICE - CATHOLIC SCHOOLS OFFICE

Salary Package Administration Service does not include the provision of professional advice to the employees in respect of Salary Packaging.

The Catholic Schools Office hereby disclaim any liability for loss or damage of whatsoever kind resulting from any advice given on salary packaging matters by any remuneration consultant. All staff of the Catholic Schools Office and Diocese of Lismore Schools should be aware of this fact and that any decisions made are independent of the Catholic Schools Office, and that no employee is under any obligation to participate in salary packaging.

CONDITIONS OF ENTERING INTO SALARY PACKAGING ARRANGEMENTS

Salary packaging is undertaken with the following conditions:-

- Salary Packaging must be entered into prospectively. Reimbursement of expenses which were incurred and paid for prior to the commencement of salary packaging will not be made.
- Reimbursement of expenses is only made where there are sufficient funds accumulated to cover the cost of the claim.
- Reimbursement of claims is made fortnightly on the Friday of pay week. Claims need to be received by the Wednesday of that week:
- Salary Packaging must be entered into in writing.
- Payments are made by:- Electronic Funds Transfer and Cheque on a regular basis as required, or as claimed for reimbursement by the employee.
- Participants must accept the relevant policy determinations reached by their employer, including benefits availability, packaging levels, administration costs and documentation requirements.
- Salary packaging agreements remain fixed for the duration of the school year except where exceptional circumstances warrant interim changes as agreed to by the Catholic Schools Office. Such exceptional circumstances include:
  - Termination or cessation of Employment
  - Commencement of Workers Compensation Payments
  - Unpaid Leave
  - Suspension without pay
  - Changing from full time employment to part time employment
  - Appointment to Higher Duties for a period of not less than 1 year
  - Changes in the employee’s principal residence
  - Commitment ceasing (e.g. Loan paid out)

- Accumulated benefit entitlements must be cleared before the end of the Fringe Benefits Tax Year (31st March). Uncleared amounts are repaid as normal salary and taxed accordingly.
THE SALARY PACKAGING AGREEMENT

The purpose of this mandatory agreement is to formalise the Salary Packaging arrangements in writing, satisfying obligations imposed under Awards or Enterprise Agreements and, most importantly, ensuring that the operation of the Income Tax Assessment Act (1997) does not inadvertently apply to any Salary Packaging arrangements. The agreement also imposes fundamental obligations upon the employer and employee which are considered to form an integral part of salary packaging.

The employee’s participation in Salary Packaging must not increase costs to the employer above the salary payable. **Effectively any tax liability, including penalties associated with the provision of Salary Packaged items is borne by the employee.** This is an important condition as all taxation legislation is subject to change and can operate retrospectively in some circumstances.

PROCESSING OF FORMS

The completed forms and agreement should be on forwarded to Catholic Schools Office.

Benefits are paid on either a regular fortnightly basis (refer Forms A, B, C and D-F/N SFees) or on the making of a periodic request/claim (Form D).

Any forms not correctly completed or received without the required substantiation of benefit items will be returned. This may result in delays in the commencement of the salary packaging.

PACKAGED BENEFITS - SETTING UP

The administration provisions stress that the funds provided under the salary packaging arrangements must be used for the payment of legitimate expense items and the employee is obligated to provide the necessary documentation as required by the employer. Funds misdirected by an employer can render salary package arrangements ineffective as well as breaching the provisions of the Income Tax Assessment Act. Such breaches not only threaten the Salary Packaging arrangements but can lead to the imposition of penalties on both the employer and employee.

We schedule below examples of documentation that must be provided for the payment of salary packaged items in order to satisfy the requirements of the legislation:

**Contributions to Complying Superannuation Fund (Form A)**

*(Refer paragraph below regarding pre-tax super contributions to the Catholic Super Fund)*

The superannuation fund must be a complying fund. A copy of a statement from the Fund Manager which details your account, the fortnightly amount to be accumulated for your contributions together with verification that the particular policy is capable of accepting employer contributions are to be attached to Form A. Participants should be aware that packaged superannuation contributions into private superannuation funds are treated as employer contributions and are taxed accordingly.

**Contributions to the Australian Catholic Superannuation & Retirement Fund (ACSRF).**

The forms necessary to commence, change or cease contributions are available on the CSO Resource Centre Website ([http://ceonp.lism.catholic.edu.au](http://ceonp.lism.catholic.edu.au)) under the “RESOURCES” and “STAFFING & PAYROLL” & “SALARY PACKAGING” submenus. There is no administration fee associated with pre-tax contributions to the CSRF.
Home Mortgage & Personal Loans (Form B)

Details of the loan account into which the payment is to be made must be confirmed by the institution. In addition, you are required to sign a declaration that you will not draw down any of these funds, except those that you have made from your own salary. The accessing of cash through loan redraw facilities is unacceptable and is considered by the Australian Taxation Office as the equivalent of receiving a salary payment and as such will be taxed accordingly. Participants are required to complete Form B and obtain confirmation from their bank verifying the account is a loan account. Salary packaged loan payments must go directly to a loan account. They cannot be made to a savings account from where the loan repayments are subsequently debited.

Private Home Rental (Form C)

Provision of written advice from the agent or landlord showing the rental amount due (e.g. either receipt for rent payment or copy of lease). In order to minimise the delays in processing payments to the agent’s or landlord’s account, where possible it would be appreciated if the payment could be made by electronic funds transfer direct to the agent’s or landlord’s account. Salary packaged rent payment must be made direct to the agent or landlord.

Trauma/Life Insurance Premiums (Form A)

Payment details are to be provided by the insurance company, including your policy and account details together the fortnightly amount to be paid.

Private Health Insurance Premiums (Form A)

Regular payment details are to be provided by the insurance company which include your fund’s membership number or account details, together with the fortnightly amount to be paid.

Lismore Diocese System School Fees (Form D or Form D-F/N SFees)

Payment Methods

There are two methods available for arranging the payment of diocesan system school fees:

(a) Accumulation Method – The employee nominates an amount for accumulation each fortnight. This accumulation is accessed by completing and submitting a claim Form D requesting either an invoiced amount be paid directly to the school/parish (Section 1), or reimbursement of amounts already paid to the school/parish (Section 2). Associated invoices and receipts must be attached to the claim.

(b) Direct Payment Method – an amount is nominated for payment directly to the school/parish on a fortnightly basis. This is arranged by completing a Form D-F/N SFees and submitting it with a copy of the fee invoice.

Setup & Maintenance

Initial set-up under either method requires completion of a Salary Package Agreement and Schedule 1. The Schedule 1 comment field needs to indicate which method of payment is required. The Accumulation Method is the default method. If the Direct Payment method is chosen, a completed form D-F/N SFees and fee invoice must be attached. Following is additional maintenance information relating to each method:

Accumulation Method

The initial Schedule 1 nominates an amount which will accumulate each fortnight (until modified
by a subsequent Schedule 1 or CEASE form notifying cessation of salary packaging). This method basically sets up a provision for paying (or reimbursing) school fees when accounts are received (this method may be preferable if fee accounts are issued each term and the participant wants a continuing fixed amount set aside each fortnight irrespective of whether the account has been received and submitted for payment, as is required under the direct payment option). As with all benefit accumulation accounts the balance has to be cleared by the end of the FBT year – 31/3/XX. Accordingly, it may be advisable to nominate an additional benefit on the Schedule 1 when using this method eg. School Fees and Credit Card expenses. This will enable clearance if the accumulated 31/3/XX balance happens to exceed the amount owed for invoiced school fees (uncleared amounts are repaid as normal earnings).

**Direct Payment Method:**
Payments under this method are made each fortnight and continue until the total invoiced amount payable, as stated on the form D-F/N SFees, is paid. *Payment is then suspended pending lodgement of a subsequent form D-F/N SFees requesting payment to resume.*

**Taxation Treatment-Systemic School Fees**
In his 2012/13 Mid-Year Economic and Fiscal Outlook (MYEFO) review released on Monday 22 October 2012, the Treasurer announced the removal of concessional fringe benefits tax (FBT) treatment for 'in-house' fringe benefits where it is accessed by way of a salary sacrifice arrangement. This measure will apply from 22 October 2012 for salary sacrifice arrangements entered into from its announcement on 22 October 2012, and from 1 April 2014 for salary sacrifice arrangements entered into prior to its announcement on 22 October 2012.

As a result, the salary packaging of systemic school fees will no longer attract the concessional treatment previously allowed because of the ‘in house’ fringe benefit status. School fees may continue to be packaged as a non-concessional benefit.

**Credit Card Reimbursement (Form D)**
The fortnightly amount to be allocated towards reimbursement of credit card payments must be nominated on the Schedule 1 Form. To claim reimbursement, submit a Form D with a copy of the credit card and payment receipt details.

**Other Expenses - Rates, Electricity, etc. (Form D)**
The fortnightly amount to be allocated towards payment of expenses must be nominated on the Schedule 1 Form. A Form D with supporting tax invoices (in the name of the participant or his immediate family) is subsequently lodged in order to make a claim.

**APPROVED FULL FEE STUDY COURSES (Form E)**
Payment in advance for approved full fee paid work related educational courses may be permitted with the consent of the Director of Catholic Schools. Guidelines of applicable courses are available from the Catholic Schools Office. Advance payments are not to exceed $1,000.00 without the approval of the director and must be repaid in full over a period not exceeding 10 fortnights.

*Approved full fee study courses which are work related are not subject to Fringe Benefits Tax. Original invoices for this benefit, together with a declaration substantiating work related use, are to be submitted before this expense item is paid on your behalf (Refer Form E).*
Please note that the payment of HECS course fees is not an exempt fringe benefit i.e. attract normal expense FBT treatment.

**VARYING SALARY PACKAGED BENEFITS**

Salary packaging should only be varied in the circumstances listed on page 11 of this booklet. A new Schedule 1 form and the appropriate benefits forms A - D are required when a change is made.

**CEASING SALARY PACKAGING**

Employee may cease salary packaging by completing and lodging the Form - CEASE. Please provide at least 14 days notice from the date of receipt by the Administration Service of your intention to cease salary packaging.

**CHECKLIST FOR INTENDING PARTICIPANTS**

In order to ensure that your documentation is processed as quickly as possible please ensure that you have:-

i) Read and Executed the Salary Packaging Agreement (enter name and date on page 1 and sign and witness on page 8).

ii) Completed a Schedule 1 Form listing details of the benefits to be packaged and for each benefit line item completed any required forms (i.e. Form A to D, L etc) and attached to each form any documentary evidence that is required (refer pages 7 -9).