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## Salary packaging strategies - FBT exempt or concessionaly taxed

Following is a checklist of those strategies that are common or likely to be most effective as part of an employee salary package. The strategies generally rely on concessional income tax or FBT treatment, although some offer considerable advantages in other areas. Some have limited application but will be valuable where they do apply. This checklist is designed as a tool for quickly determining the available packaging strategies for an employer or employee before contacting us to discuss in more detail what may be suitable for you.

### Car allowances with low business use .....

Where there are a small number of business kilometres travelled and an employer does not want to incur the costs of maintaining a vehicle, it may be practical for the employer to reimburse expenses on a per kilometre rate specified by the Commissioner. The reimbursement is not subject to FBT and is taxable in the hands of the employee. Minimal effort is then required by the employee to substantiate the expenses in his or her tax return using the cents per kilometre method. The employee benefits a little from the recoupment of some of the fixed ownership costs implicit in the cents per kilometre rate (eg depreciation and insurance).

### Cars with low business use .....

Using the statutory formula method to value car benefits where the car has minimal business use will generally undervalue the after-tax cost of running a car. As the number of kilometres travelled by a vehicle increases, the statutory formula and with it the value of the car for FBT purposes reduces. As a result, the amount by which the value of the car is understated increases as the kilometres travelled increases. Accordingly there is scope for providing an employee with a car at a lower cost than the employee would normally be able to provide because of the concessional FBT treatment.

It is important to note that there is a level of business use at which the value under the statutory formula method breaks even with the value under the operating cost method. This business use break-even point increases as the kilometres travelled increases and the applicable statutory formula reduces.

### Childcare on employer's premises .....

### Commercial vehicles – home to work travel .....

Employee use of certain commercial vehicles, whether cars or other motor vehicles, will be an exempt benefit where the only private use, apart from minor, infrequent or irregular use by an employee or by an associate of the employee, is for "work-related travel" by an employee (not an associate)

Work-related travel for the purpose of this exemption includes travel to and from work by an employee as well as travel incidentally incurred in the course of performing employment duties. The exemption does not extend to "work-related travel" by an associate of an employee.

It should be noted that the above treatment of travel to and from work is an exception to the general rule. Travel to and from work will generally not constitute business travel when calculating the business use percentage of a vehicle for income tax or FBT purposes.



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**Exempt work-related tools and equipment .....**

The provision of FBT-exempt items such as mobile phones, computer software, protective clothing, briefcases, tools of trade, electronic diaries, or laptop computers as part of a salary package will result in tax savings in some circumstances. (The exemption is discussed at. To qualify for this exemption certain of these items will need to be provided *primarily* for business use; others will need merely to be provided for use in the employee's employment. For some items there is no such requirement.

The net benefit to the employee will depend upon the deductibility of the item to the employee: the higher the extent to which an item would otherwise be tax deductible to the employee, the lower the tax benefit as a result of packaging. The non-deductible portion of these items is not subject to FBT when packaged, whereas it would be sourced from after tax funds if not packaged.

If registered for GST, the employer can also obtain a GST input tax credit on the purchase and pass that benefit on to the employee.

**Free parking .....**

Provision of car parking benefits is attractive where there is no commercial car parking station within a one kilometre radius charging more than \$6.62 per day, as the benefit is FBT-free in these circumstances.

**Frequent flyer programs .....**

**Remote area housing .....**

**Superannuation contributions .....**

Superannuation contributions provide an opportunity for employees to boost their retirement savings. The government provides taxation incentives to encourage employees to save for retirement. The tax advantages of superannuation are derived from the differential between the highest individual tax rate of 46.5% and the tax on deductible superannuation contributions to a maximum of 15%.