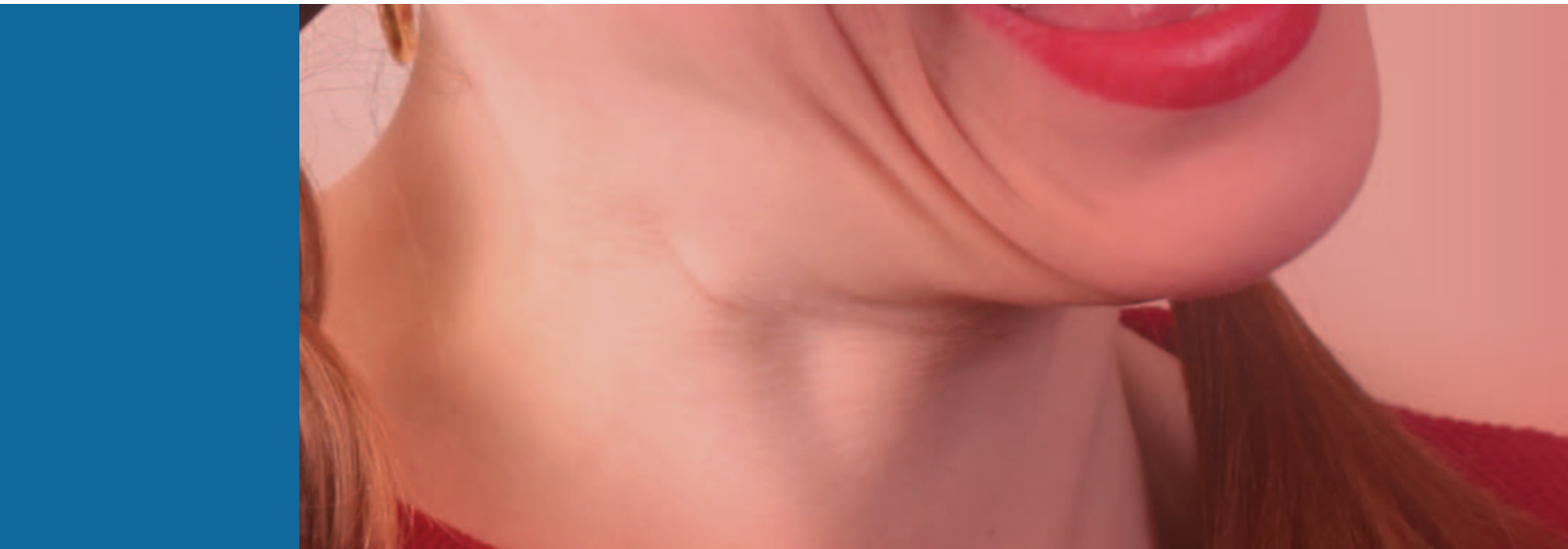




OPTOMETRISTS
ASSOCIATION AUSTRALIA
NEW SOUTH WALES

SALARY PACKAGING GUIDE FOR OPTOMETRISTS



CONTENTS	PAGE
Contents	2
Introduction	3
Change Your Way of Thinking About Remuneration	4
Interested in Some More Serious Detail?	7
Motor Vehicles	9
Employee “Benefits” Outside the FBT System	15
Summation	20

INTRODUCTION

Despite the introduction of Fringe Benefits Tax and the GST, salary packaging still presents some very attractive options for both employers and employees.

For employers in particular, a well-constructed salary package can give you a lever with which to increase the net benefit of an employee's remuneration without having to increase the gross number of dollars that you pay for the employee's services.

Of course by corollary, the employee gains as well, by walking away with a higher disposable income than they could otherwise achieve by simply taking their salary as a straight gross-tax arrangement.

PACKAGING OPTIONS

There are many packaging options around, but the most effective ones are, as you might expect, fairly simple in nature. What this guide will attempt to do is to explore, relatively succinctly, the theory behind each of the more effective options and then provide illustrations as to how these can be brought together in various combinations. The idea is to give you a practical guide as to how to put together a salary packaging option for your staff without needing to wade through a mountain of theory in order to distil the few gems at the end!

Please note that the examples and figures given herein are for illustrative purposes only. It is most unlikely that they could be directly translated to a particular circumstance – rather, they serve to highlight the possibilities that exist with salary packaging, rather than being a recipe per se.

AN IMPORTANT CAUTIONARY NOTE!

The tax laws in Australia are amongst the most complicated anywhere in the world. This document will give you a generic set of ideas about salary packaging, however it is vital that before you put a salary package into place that you consult your accountant and seek her/his professional advice.

Neither the Association, its employees, servants or agents can be held responsible for any loss or damage caused to any person or business on the basis of the advice contained in this document. Any person using this document does so on the express understanding that it is of a generic nature only and that no taxation arrangement should be entered into without the parties first seeking specific accounting and/or legal advice as to their individual situation.

CHANGE YOUR WAY OF THINKING ABOUT REMUNERATION

“Employees” are expensive beings – not only do they cost you their direct salary, but you then need to add on annual leave, sick leave, long service leave, parental leave, compassionate leave, workers compensation and superannuation costs! And of course, most of these ‘on-costs’ relate directly back to the employee’s direct salary cost – thus if you reward your employee by increasing their direct salary, all your other costs go up as well! It therefore makes good economic sense to extract the maximum benefit for both parties out of a given level of salary.

REGARD SALARIES AS A GROSS COST, NOT “SALARY PLUS...”

Many employers and most employees regard their remuneration as the amount they receive in direct salary. Whilst it isn’t practical to show the entire employment cost, it certainly is practical to regard a ‘salary’ as a package cost, even before you start tinkering with the idea of salary packaging benefits.

So starting now, regard all employee salaries as a package consisting of direct salary + superannuation.

For example, if you employ someone on a salary of \$45,000, you must then by law add on 9% of that amount as superannuation.

So why not say to your employee that they will be paid a package of \$49,050pa, consisting of \$45,000 in direct salary + \$4,050 as superannuation which you, the employer, are paying on their behalf?

The primary reason for this approach is that it starts the employee thinking about the real cost of their employment to you, the employer and also shows them that their remuneration is considerably greater than is immediately apparent. It is a catalyst for a change of mindset, which is important for both employers and employees if they want to maximise the benefits of the employment arrangement.

SO NOW THAT WE'RE THINKING ABOUT A SALARY "PACKAGE" ...

The next step is to look beyond the simple 'salary + super' approach and to start looking for ways to really make an impact on the take-home benefits that employees derive from their employment with you – without costing you any more in the process!

IGNORE "GROSS SALARY" – FOCUS ON "NET BENEFITS"

Example – lets say that as an employee, you have an option of working for one of two optometrists.

Optometrist 1 is offering a straight 'salary-less-tax' arrangement of \$47,500pa. After tax, you would take home about \$36,157.50 (after tax and Medicare levy of 1.5%) – this equates to about \$695.35 per week in your hand. Out of this, the employee will need to meet a few fixed expenses – running a car, paying OAA fees, use of a mobile phone (largely for use in connection with the practice of optometry) and attendance at continuing professional education in order to meet the Association's membership requirements. Using a few assumptions, lets see where this leaves the employee at the end of a year:

Gross Income	\$47,500.00
Less Tax	\$11,342.50
Net Income	\$36,157.50

Less essential expenses (on an annual basis):

Motor Vehicle		
Repayments on \$30,000.00	\$8,500.00	(5yrs @ 11%pa)
Running Costs	\$4,750.00	(incl. fuel, maint, rego and insurance)
OAA Fees	\$1,452.00	
Mobile Phone	\$920.00	(\$77.00 p/mth)
CE Courses	\$500.00	(1 weekend course)
Total Expenses	\$16,122.00	
Disposable Income Left	\$20,035.50	

SALARY PACKAGING GUIDE FOR OPTOMETRISTS

Optometrist 2 is offering a little less; \$45,000pa as a salary - but is willing to package that amount in any way which is in accordance with the tax laws. So assuming that we want to cover the same fixed expenses as we did with Optometrist 1, how would a “package” compare in terms of disposable income at the end of the day?

Gross Income \$45,000.00

Less salary sacrifice for essential expenses (on an annual basis, excluding the GST component, because the employer can claim a rebate on these costs).

Motor Vehicle

Lease on \$30,000.00	\$5,664.00	(5yrs @ 8.7%pa, 25% residual)
Running Costs	\$4,320.00	(incl. fuel, maint, rego and insurance)
OAA Fees	\$1,320.00	
Mobile Phone	\$836.00	(\$77.00 p/mth)
CE Courses	\$455.00	(1 weekend course)
Salary Sacrifice – Car	\$4,529.00	(see Motor Vehicles, for more info)
Salary Sacrifice – Other	\$2,611.00	(OAA Fees + Mob Phone + Courses)

Taxable Income \$37,860.00

Less Tax \$8,306.00

Net Income \$29,544.00

Less Post-Tax Car Contribution \$6,000.00

Disposable Income Left \$23,554.00

How much better off are you? **\$3,518.50 pa or about \$68.00 p/wk post-tax!**

Remember, this is based on a salary of \$2,500 less than that offered by Optometrist 1, so Optometrist 2 pays \$2,500 less and the employee gets \$3,500 more – isn't this a win all around?

INTERESTED IN SOME MORE SERIOUS DETAIL?

Okay, we've piqued your interest. Now we need to look at the detail behind the above example and to give some practical examples of how salaries can be packaged.

Important Note: The tax benefits of salary packaging for cars change substantially when an employee has a taxable income either above or below \$60,000pa. This is the level at which the highest marginal tax rate (48.5% inc Medicare levy) kicks in. Because of this, we need to deal with car benefits in two parts. Apologies for the complexity!

PART 1: NON-CAR EXEMPT FRINGE BENEFITS

The current FBT legislation exempts some items from the payment of Fringe Benefits Tax even when they are supplied by an employer for private or part-private purposes. These most typically include:

- A laptop computer;
- Mobile phones used primarily for business purposes;
- Calculators/electronic organisers;
- A briefcase;
- Computer software that is used for work-related purposes; and
- Professional membership fees and airport lounge memberships.

What this means is that an employer can provide these items to an employee as part of a salary package arrangement in pre-tax dollars, thus saving the employee all the tax which would normally be associated with the purchase of these items.

And there are some additional benefits:

- The cost of providing the benefit is normally outright deductible to the employer.
- The employee will usually salary package the GST-exclusive cost of the item, as the employer will be able to claim an input tax credit for the GST component of the item.

Take an example of an employee who wishes to package the acquisition of a laptop computer valued at \$4,400 inc GST of \$400.

PACKAGED

Gross Salary PA	\$55,000.00	
Less Salary Sacrifice	\$4,000.00	(computer cost less GST component)
Salary After Sacrifice	\$51,000.00	
Tax on \$51,000.00	\$12,565.00	
Net Disposable Income	\$38,435.00	

NON-PACKAGED

Gross Salary PA	\$55,000.00	
Tax on \$55,000.00	\$14,305.00	
Income After Tax	\$40,695.00	
Less Computer	\$4,400.00	(cost includes GST)
Net Disposable Income	\$36,295.00	
Benefit of Packaging	\$2,140.00	(i.e. the employee has this much more disposable income because of the packaging of the laptop computer)

Benefits of a similar ilk (proportionate to the cost of the item) are available for all items which are FBT-exempt and are taken as part of a salary package.

MOTOR VEHICLES

As noted above, motor vehicles need to be dealt with in two different ways, depending on whether or not the employee has a taxable income (after superannuation but before other benefits are deducted) of more or less than \$60,000pa. The reason for this is that once an employee starts paying tax at the highest marginal rate (48.5%) the benefits of post-tax salary sacrifice in relation to motor vehicles disappears. At income levels below \$60,000 there are some quite strong advantages in making employee contributions to the cost of a packaged motor vehicle. This is because at less than \$60,000, your marginal rate of tax is less than the FBT rate of 48.5%. However above \$60,000, both the FBT rate and marginal tax rates are 48.5%, meaning that there is no advantage in making employee contributions. However there can still be some significant advantages in terms of overall disposable income, depending on the value of the vehicle and the distance travelled in a year.

FOUR ESSENTIAL GROUND RULES

The benefits of salary packaging a motor vehicle depend on 4 things – each of these 4 need to be in place for the arrangement to yield maximum benefit for the employee.

Vehicle Finance	Novated or operating lease (other forms of finance will still work, but they reduce the benefit because they don't allow deductions for the GST component of the financing).
Vehicle Price	For employees earning less than \$60,000pa, benefits are maximised when the vehicle cost is less than \$35,000. For employees earning more than \$60,000pa, vehicle cost needs to be less than \$55,000 (the point at which the luxury car tax kicks in).
Distance Travelled	The vehicle must travel at least 15,000kms pa (distances of over 25,000kms pa are even more advantageous, as the FBT rate drops the more kms are driven in a year).
Calculation Method	The Statutory Formula method must be used to calculate the FBT amount payable on the vehicle.

With the qualified exception of the first item (finance – and it is still highly preferable for the operating or novated lease to be used to finance the vehicle) the absence of any one of these conditions will mean that there is little or no benefit to be gained in entering into a salary sacrifice arrangement in respect of a motor vehicle.

EMPLOYEES PACKAGING CARS WITH INCOMES LESS THAN \$60,000 PA

Employees in this income bracket will maximise their tax benefit in the following circumstances:

- Car cost is less than \$35,000.00;
- The vehicle is financed through an operating or novated lease;
- The employee makes a post-tax contribution to offset the FBT component of the vehicle fringe benefit; and
- The car is driven at least 15,00kms per annum.

EXAMPLE

Employee Salary	\$50,000.00	
Base Value of Car	\$30,000.00	
Vehicle Operating Costs ❶	\$11,793.00	pa [A] (excl GST, \$12,922.00 incl GST)**
Distance Travelled		15,000 to 24,999kms pa

CALCULATING THE SALARY SACRIFICE AMOUNT

FBT Payable - if no salary sacrifice	\$6,196.00	[B]
FBT Payable – if salary sacrifice ❷	\$ NIL	
Employee Contribution ❸	\$6,000.00	(approx. same as FBT payable) [C]
GST on Employee Contribution ❹	\$545.00	(\$6,000.00/11)
Salary Sacrifice Amount	\$6,338.00	(❶ + ❷ + ❸ + ❹) [D]

SALARY PACKAGING GUIDE FOR OPTOMETRISTS

** Calculation:

Lease Payments	\$8,242.00	
Petrol and Oil	\$1,980.00	
Repairs and Maintenance	\$1,430.00	
Registration (no GST)	\$500.00	
Insurance	\$770.00	
<hr/>		
GST-Inclusive Expense	\$12,922.00	[E]
Less Input Tax Credit	\$1,129.00	(1/11 th of \$12,922.00 – \$500.00)
<hr/>		
GST-Exclusive Expense	\$11,793.00	

COMPARISON OF DISPOSABLE INCOME WITH AND WITHOUT SALARY PACKAGING and EMPLOYEE CONTRIBUTIONS

NO PACKAGING

Gross Salary	\$50,000.00	
Tax on \$50,000.00	\$12,130.00	
Income After Tax	\$37,870.00	
Less Car Operating Costs (GST inclusive)	\$12,922.00	(see [E] above on this page)
Net Disposable Income	\$24,948.00	pa

PACKAGED, BUT NO EMPLOYEE CONTRIBUTIONS

Gross Salary	\$50,000.00	
Less Salary Sacrifice Amount	\$17,989.00	(where no employee contribution is made and FBT is paid for by the employee) (see also [A] + [B] on page 10)
Salary After Sacrifice	<hr/> \$32,011.00	
Tax on \$32,011.00	\$6,463.00	
Net Disposable Income	\$25,548.00	pa

PACKAGED, WITH EMPLOYEE CONTRIBUTIONS

Gross Salary	\$50,000.00	
Less Salary Sacrifice Amount	\$6,338.00	(where the employee makes a post-tax contribution to offset FBT costs) (see also [D] on page 10)
Salary After Sacrifice	<hr/> \$43,662.00	
Tax on \$43,662.00	\$10,133.00	
Income After Tax and Sacrifice	\$33,529.00	
Less Employee Contribution	\$6,000.00	(see [C] on page 10)
Net Disposable Income	\$27,529.00	pa

So in summary, the net increase in disposable income benefit to an employee of packaging a vehicle in this example:

Straight Salary	\$0
Sacrifice without Employee Contr.	+\$600.00
Sacrifice with Employee Contr.	+\$2,581.00

EMPLOYEES PACKAGING CARS WITH INCOMES GREATER THAN \$60,000 PA

Employees in this income bracket will maximise their tax benefit in the following circumstances:

- Car cost is less than \$55,000.00;
- The vehicle is financed through an operating or novated lease; and
- The car is driven at least 15,00kms per annum.

EXAMPLE

Employee Salary	\$75,000.00	
Base Value of Car	\$45,000.00	
Vehicle Operating Costs ❶	\$12,460.00	pa (excl GST, \$13,656.00 incl GST)**
Distance Travelled		15,000 to 24,999kms pa

CALCULATING THE SALARY SACRIFICE AMOUNT

FBT Payable on Car ❷	\$9,294.00	
Salary Sacrifice Amount	\$21,754.00	(❶ + ❷)

** Calculation:

Lease Payments	\$8,976.00	
Petrol and Oil	\$1,980.00	
Repairs and Maintenance	\$1,430.00	
Registration (no GST)	\$500.00	
Insurance	\$770.00	
<hr/>		
GST-Inclusive Expense	\$13,656.00	
Less Input Tax Credit	\$1,196.00	(1/11 th of \$13,656.00 - \$500.00)
GST-Exclusive Expense	\$12,460.00	

COMPARISON OF DISPOSABLE INCOME WITH AND WITHOUT SALARY PACKAGING

NO PACKAGING

Gross Salary	\$75,000.00	
Tax on \$75,000.00	\$23,755.00	
Income After Tax	\$51,245.00	
Less Car Operating Costs (GST inclusive)	\$13,656.00	
Net Disposable Income	\$37,589.00	pa

PACKAGED

Gross Salary	\$75,000.00	
Less Salary Sacrifice Amount	\$21,754.00	(where FBT is paid for by the employee)
Salary After Sacrifice	<hr/> \$53,246.00	
Tax on \$53,246.00	\$13,542.00	
Net Disposable Income	\$39,704.00	pa

So in summary, the net increase in disposable income benefit to an employee of packaging a vehicle in this example:

Straight Salary	\$0	
With Salary Sacrifice	+\$2,115.00	pa

EMPLOYEE “BENEFITS” OUTSIDE THE FBT SYSTEM

In the course of employment, there are a number of things which an employee would need to do which might be considered a “benefit” but which are not generally caught by the Fringe Benefits Tax net. The major proviso with these is that they must be “reasonable” given the circumstances of a person’s employment.

In an optometric practice, the major items which would fall into this category would be professional continuing education (and necessary travel and ancillary expenses related thereto) and, assisted housing and travel expenses in non-metropolitan areas.

CONTINUING EDUCATION

Most employers would, in the course of their business, have a reasonable expectation that their staff (both professional and administrative) will keep up to date with the latest skills and knowledge.

In a taxation sense, it is permissible for an employer to meet the reasonable costs of sending staff members to courses, seminars, lectures etc which have the intent of improving that employee’s worth to the business. Thus it would be acceptable for an employer to, for example, send an employed optometrist to the OAA (NSW) Annual Conference in Sydney and in doing so to meet the costs of their registration and reasonable travel, accommodation and living costs (meals etc). If this occurred, there would be no FBT implication for either the employer or employee.

The key here is the word “reasonable” – and this word must be viewed in the context of the person to whom it applies. It would probably be OK, for example, for the practice manager of a large, multi-site practice to visit the United Kingdom to learn how a big chain like Boots Opticians run their operations – and for the employer to pay for the trip. However it would be less likely that a 20yo receptionist could validly argue that the same trip would be justified, even if the employer wanted to send him/her!

ASSISTED HOUSING and RELOCATION EXPENSES

It is often the case that employers in non-metropolitan areas may offer prospective employees a ‘remuneration package’ consisting of, for example, salary, car, relocation expenses and assisted housing.

We have dealt with salary and car, but what about relocation expenses and housing?

RELOCATION EXPENSES

Valid and reasonable relocation expenses are exempt from FBT where they are paid to assist an employee to move from one locality to another for the purposes of obtaining or retaining employment. Such expenses are specified as being:

- Relocation travel costs (inc meals and accommodation en route) for the employee and their family;
- Cost of removal of furniture and personal effects (including storage and insurance);
- Cost of leasing furniture for temporary accommodation;
- Cost of connecting telephone, gas and/or electricity services to temporary accommodation;
- Necessary meal costs at a hotel, motel etc.;
- Advances to cover such things as rental bond or electricity and gas deposits; and
- Home sale and purchase costs (stamp duty, legal fees, estate agent's commission etc.).

Thus an employer who offers to pay such expenses on behalf of an employee would have no exposure to an FBT liability. Equally, if an employee found themselves having to meet such costs themselves, they would be well advised to negotiate a salary-sacrifice arrangement with their employer so that the expenses are met from pre-tax dollars, rather than from post-tax disposable income.

HOUSING

Except in some narrowly defined circumstances, any assistance provided to an employee in the form of subsidised housing would attract FBT. There may be some exceptions to this rule in the case of remote area housing, but these would be fairly uncommon. If either an employer or an employee is considering offering a housing benefit, we would suggest that you should check with your accountant first, as it is highly likely that a liability for FBT would accrue on such an arrangement. The FBT payable on the benefit would be calculated at the highest marginal tax rate, meaning that there is no net tax advantage in providing such a benefit.

THE PACKAGES

In light of all the above, following are two examples of packages that could be put together for the benefit of both employers and employees. Note again our advice – if you do decide that you want to go down this track (and there are good reasons for doing so!) please seek the advice of your accountant before making any final commitment. The tax laws are highly individualistic – that is, they vary depending on the particular circumstances of the individuals and businesses to which they are applied in any given situation. The OAA strongly advises you to seek professional advice before proceeding with any taxation strategy.

SAMPLE PACKAGE #1 – EXEMPT BENEFITS, NO MOTOR VEHICLE

Applicability – probably more for newer or less senior employees. Easily structured and easily undone if the employee happens to leave your business.

Remuneration Package	\$40,000.00	pa (+ 9% superannuation)
Expenses:		
Mobile Phone	\$840.00	pa (excl GST)
OAA Fees	\$1,320.00	pa (excl GST)
OAA Conference	\$450.00	pa (excl GST)
Conference Travel	\$850.00	pa (excl GST)
Total Expenses	\$3,460.00	pa

Advantage to employee:

NO PACKAGING

Salary	\$40,000.00	
Less Tax	\$8,980.00	
Net Income	\$31,020.00	
Less Expenses as Above	\$3,806.00	(GST exclusive)
Disposable Income	\$27,214.00	

WITH SALARY PACKAGING

Salary	\$40,000.00	
Less Salary Sacrifice	\$3,460.00	(GST exclusive)
Net Income	\$36,540.00	
Less Tax	\$7,890.00	
Disposable Income	\$28,650.00	
Net increase in disposable income	\$1,436.00	or about \$28.00 p/wk.

You could give your employee a rise in disposable income of almost \$1,500pa without actually increasing your outlay by a single dollar! Good business?!

SAMPLE PACKAGE #2 – EXEMPT BENEFITS, WITH MOTOR VEHICLE

Applicability – probably more for established or senior employees. The introduction of a car adds to the complexity of the arrangement and thus you would probably only consider this if the person has a high likelihood of staying with you for a while.

Remuneration Package	\$75,000.00	pa (+ 9% superannuation)
Expenses:		
Mobile Phone	\$840.00	pa (excl GST)
OAA Fees	\$1,320.00	pa (excl GST)
OAA Conference	\$450.00	pa (excl GST)
Conference Travel	\$850.00	pa (excl GST)
Motor Vehicle	\$12,460.00	pa (excl GST, see page 13)
Total Expenses	\$15,920.00	pa

Advantage to employee:

NO PACKAGING

Salary	\$75,000.00	
Less Tax	\$23,755.00	
Net Income	\$51,245.00	
Less Expenses as Above	\$17,462.00	(GST inclusive – see page 13 for motor vehicle exp.)
Disposable Income	\$33,783.00	

WITH SALARY PACKAGING

Salary	\$75,000.00	
Less Salary Sacrifice	\$25,214.00	(GST inclusive – see page 13 for motor vehicle exp.)
Net Income	\$49,786.00	
Less Tax	\$12,062.00	
Disposable Income	\$37,724.00	
Net increase in disposable income	\$3,941.00	or about \$76.00 p/wk

You could give your employee a rise in disposable income of almost \$4,000.00pa without actually increasing your outlay by a single dollar! Good business?!

SUMMATION

Even with the advent of Fringe Benefits Tax and the GST, salary packaging offers considerable opportunities for both employers and employees to maximise the income potential of a given level of salary.

Properly structured, it can mean that employees can get a greater after-tax pay packet without costing the employer any more in direct salary and on-costs.

This guide has given you an indication of how a salary package can be structured for maximum benefit whilst sticking strictly to the tax rules.

However because Australian taxation laws are so complex, we reiterate our key message once more:

The tax laws in Australia are amongst the most complicated anywhere in the world. This document will give you a generic set of ideas about salary packaging, however it is vital that before you put a salary package into place that you consult your accountant and seek her/his professional advice.

Neither the Association, its employees, servants or agents can be held responsible for any loss or damage caused to any person or business on the basis of the advice contained in this document. Any person using this document does so on the express understanding that it is of a generic nature only and that no taxation arrangement should be entered into without the parties first seeking specific accounting and/or legal advice as to their individual situation.

Finally, it is important to note that the Association cannot offer specific taxation advice to any member. If you have questions of a general nature about what is in this document, we will be glad to try to assist. However the Association cannot advise you on how to structure a particular salary arrangement nor can we offer advice on whether or not a particular arrangement will comply with the tax laws. For this, we will refer you to your accountant.

If we can assist you with any further information, please call us on (02) 9712 2199.

[THIS PAGE IS LEFT BLANK]

visit us on the web at
www.aaansw.com.au



OPTOMETRISTS
ASSOCIATION AUSTRALIA
NEW SOUTH WALES