



# Salary Sacrifice

Salary sacrifice has become an increasingly popular way for employees to have items paid out of pre-tax income, therefore getting the item cheaper than if they were buying it out of their after-tax income.

It is extremely popular in the health system and for religious practitioners, due to the benefits of tax free and fringe benefits tax exempt status. There are some limits for those people, but generally the concept is quite attractive.

The popularity of salary sacrificing for other employees where the employer is liable for both income tax and fringe benefits tax is less so, especially for employees who are on marginal tax rates less than the maximum. This is due to fringe benefits tax being paid by employers at the top rate after grossing up the benefit, and then wishing to recover the out of pocket expense from the employees gross wage.

Below we have set out information on income, deductions, capital gains, and other things to keep in mind for your tax. This is a not exhaustive but indicative list.

	Provider 30% Tax		Provider 0% Tax		
	GST	No GST	GST	No GST	
<b>Benefit</b>	<b>2,200</b>	<b>2,200</b>	<b>2,200</b>	<b>2,200</b>	
GST	200	0	200	0	
<b>Net Deduction</b>	<b>2,000</b>	<b>2,200</b>	<b>2,000</b>	<b>2,200</b>	
<b>Gross Up Rate</b>	<b>2.1292</b>	<b>1.9417</b>	<b>2.1292</b>	<b>1.9417</b>	
Grossed Up Benefit	4,258	4,272	4,258	4,272	
FBT Rate	48.5%	48.5%	48.5%	48.5%	
FBT Payable	2,065	2,072	2,065	2,072	
Cost to Provider	4,065	4,272	4,065	4,272	allowed as deduction
Tax Saving to Provider	1,220	1,282	0	0	due to deductibility
<b>After Tax Cost to Provider</b>	<b>2,846</b>	<b>2,990</b>	<b>4,065</b>	<b>4,272</b>	
Therefore, reduction of employee gross wage	2,846	2,990	4,065	4,272	to recover so provider
Tax Rate	31.5%	31.5%	31.5%	31.5%	is not out of pocket
Tax on Wage Reduction	896	942	1,281	1,346	
<b>Wage Out Of Pocket</b>	<b>1,949</b>	<b>2,048</b>	<b>2,785</b>	<b>2,926</b>	
<b>Original Benefit Cost</b>	<b>2,200</b>	<b>2,200</b>	<b>2,200</b>	<b>2,200</b>	
<b>Employee Benefit or Out Of Pocket</b>	<b>251</b>	<b>152</b>	<b>-585</b>	<b>-726</b>	



## Fact Sheets

The above example shows how salary sacrificing works, and the net benefit to the employee. In the example the assumption is made that the employer is liable for fringe benefits tax.

These are all important considerations. Should you wish to discuss them with one of our professional team, please contact us to make an appointment.