

EXEMPT BENEFITS – Fill the salary gap

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Let's face it, not everyone is born rich! Some are lucky enough to never need to read the university students' bible *1001 Ways to Cook Sausages*. But there are a few places you can look to find wealth – places like Exempt Benefits. Many not-for-profit organisations, community or public benevolent institutions (PBIs) are not able to match the salaries on offer by the more corporate and wealthier employers. If your organisation struggles to come up with the goods to snare the right staff, maybe you need to look at what's on offer from the Australian Taxation Office. Likewise, if you are an employee considering an approach to management for an increase in pay, you might like to consider suggesting these tax effective alternatives where you receive more take-home pay whilst your employer doesn't have to alter the salary budget.

I'm pitching this article, in particular, to mid-level employees. Those at the top don't need too much help organising their packaging arrangements but those in the mid-range may have limited experience in negotiating a satisfactory salary structure. Having said that, I only offer this information as a starting point for your research and knowledge. I am not and do not claim to be an expert in this field but write from experience and will quote direct from ATO publications. I suggest you seek professional assistance before implementing anything discussed in this article. This is by no means an exhaustive list of benefits or ways in which to apply them.

For this article, I will assume readers understand usual salary packaging arrangements for PBI's ie. grossed-up benefits of \$17,000 (hospitals) and \$30,000 (non-hospitals). Most employees have been well educated on how to utilise this benefit. I want to take a look at **exempt benefits**, which have the capacity to add significant value to an employment package, in particular, for rural Australia.

Rent and Relocation Exempt Benefits

Subject to ATO guidelines, those areas designated remote (sometimes not as remote as you may think!) qualify for a residential rental exempt benefit. Employees who have relocated into rented or temporary accommodation can sacrifice 50% (private rental) or 100% of their rent costs (employer-owned rental). In addition, relocation expenses can be sacrificed. This includes meals whilst travelling and accommodation en-route for all the family. How is this done? The removal contractor could be paid in full by the employer on behalf of the employee, then recouped from the employee's salary at an agreed rate using pre-tax dollars. The result is the employee has paid for the relocation utilising a tax savings.

What does that mean?

| Example 1 | | Example 2 | | Example 3 | |
|--|---|--|--|---|---|
| Christmas dinner with family in Perth | TEST | Catered birthday party | TEST | Grocery shopping | TEST |
| Elements: | | Elements: | | Elements: | |
| <ul style="list-style-type: none"> • Flights • Dinner expense • Accommodation | <ul style="list-style-type: none"> ✓ ✓ ✓ | <ul style="list-style-type: none"> • Meal expense • Venue hire | <ul style="list-style-type: none"> ✓ ✓ | <ul style="list-style-type: none"> • Food for home | This won't qualify as there is no entertainment value |

The ATO do not stipulate a \$ value so I recommend that care be taken to keep the benefit realistic and reasonable. It is reasonable that in a week you would expend between \$100 - \$200 on the provision of 'meal entertainment' in the course of your weekly work and private life. Note, however, that this benefit cannot be applied to overseas travel.

How do you apply this?



Meal Entertainment Exempt Benefits

In my experience one of the most valuable exempt benefits that can be utilised is that of 'meal entertainment'. According to the *FBT Assessment Act 1986-Section 37D*, the meaning of provision of meal entertainment is defined as follows:

'Reference to the provision of meal entertainment is a reference to the provision of:

- a) entertainment by way of food or drink; or
- b) accommodation or travel in connection with, or for the purpose of facilitating, entertainment to which paragraph (a) applies; or
- c) the payment or reimbursement of expenses incurred in providing something covered by paragraph (a) or (b);

whether or not:

- d) business discussions or business transactions occur; or
- e) in connection with the working of overtime or otherwise in connection with the performance of the duties of any office or employment; or
- f) for the purposes of promotion or advertising; or
- g) at or in connection with a seminar

refer to table 'What does that mean?'

Other useful exempt benefits include:

- Superannuation contributions
- Professional development (including subscriptions to profession-related publications)
- Laptop, software and an electronic diary

For a number of reasons many employees do not take advantage of exempt benefits. Sometimes employees can't be bothered with the care required to collect receipts and documentation. Some are simply not offered an opportunity to participate – employers are at times reluctant to offer such schemes as they may not have the expertise to understand how it works (although there are numerous external agencies who can handle the process, paid for by the participating employees). Some employers adopt an 'elitist' attitude and only offer it to upper level staff whilst others feel that the administration is too onerous.

Savvy employers can offer these benefits to staff as a means of attraction in lieu of higher wages. These benefits can also act as a goodwill gesture to assist retention of staff, particularly if the employer maintains the superannuation guarantee at the full amount of pre-benefit salary.

If you have the opportunity to negotiate, explore this possibility of both parties gaining an advantage:

- employer does not have to pay a higher salary (and associated on-costs)
- employee receives more disposable income by utilising non-reportable, pre-tax dollars.

Pros and Cons:

Benefits of Exempt Benefits

- Not accounted for each financial year – they are ongoing and do not need to be acquitted within certain timeframes.
- Not reportable – taxable income is lower.
- Present an opportunity to increase your income by reducing your taxation liability.
- May assist a working couple to keep income below the upper medicare levy threshold.

Potential Pitfalls of Exempt Benefits

- You must be careful not to make a claim in your tax return for an expense that has been packaged.
- Your employer is not obliged to pay superannuation on the portion of your package that you sacrifice.
- If you are injured at work, WorkCover will only pay you your actual, stated salary.
- Non-reportable benefits are only a benefit to you if you have something to gain by understating your taxable income.
- May have to forgo some income while funds build up with service provider so expenses can be reimbursed. This is more of an issue if you are 'saving' to purchase a larger item such as a laptop computer.