THE ARTS OF SALARY PACKAGING AND SUPERANNUATION

Speakers: Steve Miller – Chartered Accountant
Michael Loizou – Financial Planning Specialist

Chair: Penny Miles – SAMAG Coordinator

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By Frances Derricourt

With a panel made up of two financial experts, the May SAMAG Seminar got stuck into the numbers. Steve Miller answered the difficult question of whether salary packaging is still an attractive option for those in the arts, and Michael Loizou outlined how the recent changes in superannuation policy will affect employees of all ages. Despite some difficult topics, perilously full of acronyms, the audience was keen and eager, as Penny Miles put it "to see if we can turn our work for love into money in our pockets".

Steve began by explaining first what salary packaging actually is. Salary packaging provides for the payment of certain expenses whether they be business related or not, out of an employee's gross salary, with a view to increasing the employee's disposable income or savings. He noted that it is important to remember that a Fringe Benefits Tax (FBT) liability may arise from the payment by the employer, and that FBT must be included in the package. Eg. Cash component + a contribution towards school fees + FBT + super = Total Salary Package.

There are three types of Packaged Benefits – Exempt benefits, Fringe Benefits and Superannuation.

Exempt benefits are things such as laptops, mobiles, and in-house health care facilities – in general, things which may assist the employee in their work operation. These do not attract Fringe Benefits Tax, but some conditions do apply, such as an employer can only provide one notebook computer per year. Steve suggests that when including a Notebook computer in a package, you should encourage your employee to purchase the computer first and then reimburse them later. This means the employee benefits from keeping the invoice and claiming depreciation, and the employer receives a tax credit for the GST on the notebook.

Interestingly, the rules are quite lax regarding these exempt benefits – even if you purchase an electronic diary which you only use 1% of the time for business purposes, and the rest for your own private use, you can be reimbursed by your company and still be exempt from FBT. Exempt benefits also include 'minor benefits' which are worth under $300 (inc gst), and are generally gifts which aren't regularly provided to the employee (such as a meal out). When it comes to minor benefits, Steve recommends you do not put these in writing as an official part of the package, but instead use them as rewards.

Fringe benefits include things such as car benefits, expense payments like school fees, reimbursements for meal and entertainment costs and any gifts which are valued at over $300. These will all incur the Fringe benefit tax when provided to employees or associates of employees, the current rate of FBT tax being 46.5%.

FBT is paid by sole traders, partnerships, trusts, corporations, unincorporated associations and government bodies – pretty much anyone who is an employer. The only organisations which receive an FBT concession are public benevolent institutions or health promotion charities – although Steve mentions it is extremely hard to receive PBI status.

The good news for arts organisations is that not-for-profits get a rebate on FBT as long as they don't pay more than $14, 530 worth of expenses. However the bad news is that when salaries are fall in the lower brackets, salary packaging generally isn't worthwhile for either the employer or employee. It can involve huge amounts of administration and record-keeping, and often does not make much difference to the overall wealth of someone with a lower level of salary.

Steve reminds the audience of three important points

- fringe benefits amounting to more that $1000 for an employee must have the grossed up amount recoded on the employee's yearly payment summary
- There must be a written agreement regarding the package <u>before</u> payment occurs, because once any money is paid into super it is too late to change amounts.
- Employers have a moral obligation to pay super at 9% on the employee's gross package including any sacrificed expenses

Leading on into Michael's presentation, Steve adds that "with the major changes in superannuation, I think no matter what age we are it's going to really be one of the major salary packaging opportunities for people." Recently described as creating a 'magic pudding' for retirees, Michael takes us through the major changes in super which will transform the way we all think about managing our funds.

The first major change occurred in the 2006 budget when the **Reasonable Benefits Limits (RBLs) were abolished**. RBLs restricted the amount of concessionally taxed super you could receive – now you can have as much super as you like. What this means for us is that there is no longer a need for complex strategies to manage 'excess benefits'.

The second major change is that **after 1 July, 2007, if you're over 60 you can take all your super out, tax-free.** Of course Michael doesn't' recommend taking it all out and buying that new Mercedes – instead what this means is that you can set up 'income streams', or tax-free income payments which set you up for your retirement years. By controlling these income streams you may also qualify for the Age Pension.

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The catch is that is that it is now harder to put money back into super, and exceeding the new capacities can result in huge fines. After the end of this financial year, you are only allowed to put in $150,000 pa, or $450,000 if you are under age 65 in that year and you don't make further contributions in the following two years. This excludes proceeds from the sale of small business assets up to a lifetime limit of $1million or settlements received for injuries relating to permanent disablement.

In managing your superannuation in the current climate, Michael recommends the following. If you are under 50, make larger salary sacrifices or personally deducted contributions, and start salary packaging earlier. Then as you get over 50, bring forward your salary sacrifice or personal deductible costs and when you reach over 55 combine your salary sacrifice with a Transitions to Retirement Program (TRP).

Michael also notes that with the new more generous assets test, your eligibility for the Age Pension may have changed. Previously if you had more than $535,000 in assets as a couple you could not qualify for the Age Pension – whereas now this amount has increased to $818,000. Michael urges those who are affected by this to head to Centrelink to be reassessed.

From this year compulsory cashing rules will be abolished, which means you are allowed to keep money in super indefinitely. However Michael reminds the audience we are paying tax on this super, so it is more useful to look into some flexible income stream options. He also suggests some other tips – put your cash bonuses into super, switch your home loan to interest-only to free up cash flow to make salary sacrifice super contributions, or use the TRP program to live on. Some good advice if you want that magic pudding to work for you!

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