

Tasmanian Council on AIDS, Hepatitis and Related Diseases

REMUNERATION PACKAGING

PRINCIPLE:

1. TasCAHRD, being a Public Benevolent Institution (PBI), is entitled to offer all employees the benefit of salary sacrifice arrangements, more formally referred to as "remuneration packaging".
2. Remuneration packaging is the combining of taxable income (wage or salary) paid to an employee with other non-salary benefits to make up a remuneration package. This is sometimes also known as salary packaging or salary sacrificing.

RATIONALE:

3. Where remuneration packaging is correctly applied, the overall value of the remuneration package is worth more to the employee without costing the employer more money in labour costs. This can help attract skilled employees who might otherwise be able to seek higher wages elsewhere.
4. TasCAHRD has been granted PBI status. Organisations granted this status become eligible for partial exemption from a number of taxes and charges including income tax on the organisation's income and fringe benefits tax (FBT).
5. For a salary sacrifice to be fully effective under the income tax and fringe benefits tax laws, it should satisfy the following conditions:
 - The salary sacrifice must be prospective and not retrospective. That is, employees must elect to enter into the salary sacrifice arrangements prior to the point in time at which any relevant employment services are performed, or prior to the commencement of services.
 - The employee's cash salary must not be reduced below the minimum level specified in any relevant industrial Award.
 - The salary sacrifice must result in a salary reduction and not merely be a salary deduction or redirection. In other words, the employee's new base salary should be reflected in other salary-linked entitlements such as recreation leave.
 - The salary packaging agreement must not allow cash to be received instead of the non-cash benefits. For example, if the value of the non-cash benefits received by an employee during a particular year, or prior to the termination of employment is less than the salary foregone, it must not be possible for the employee to convert the unutilised benefits into cash.
6. TasCAHRD's accountant may be requested to assist employees in calculating their allowable level of salary sacrifice.
7. TasCAHRD has entered into a Remuneration Packaging Agreement certified by the Tasmanian Industrial Commission in the context of the Community Services Award.
8. Utilisation of any such arrangement is totally discretionary, and able to be availed of at the option of the individual employee. Nor will a decision to enter or not to enter into a remuneration packaging arrangement in any way disadvantage an employee in terms of the application of the provisions (including salary provisions) of the Community Services Award.
9. As well as the interests of employees, the Board of Management has an obligation to protect and safeguard the operational viability and efficiency of TasCAHRD as a whole. Therefore the Board will ensure that the provisions of the taxation law are strictly adhered to in all aspects of remuneration packaging, that the arrangements put in

place to give effect to any agreement are administratively simple and straightforward, and that the arrangements avoid a substantial increase in administrative and clerical work.

10. Under the New Tax System, a series of changes have been made which effect remuneration packaging.
11. From 1 April 2001 a cap has been placed on tax-exempt fringe benefits for PBIs. This limit has been set between \$15,450 (for Type 2 Benefits) and \$14,089 (for Type 1 Benefits) [depending on whether the benefits are Type 2 or Type 1 or a combination of both], an amount that grosses up to \$30,000. Above this level the organisation will be taxed at a rate of 48.5 cents for each dollar.
12. Employees should note that the Fringe Benefit will now be included on workers' group certificates at the grossed up amount. This grossed up figure is used in the calculation of:
 - Child care support payments
 - Medicare surcharge levy
 - Higher Education Fees.

OPERATIONAL GUIDELINES:

13. All figures used in this Policy will be checked and amended or certified by TasCAHRD's accountants at the commencement of each financial year.
14. The Remuneration Packaging Agreement entered into between TasCAHRD and the Australian Services Union and certified by the Tasmanian Industrial Commission on 9 November 1999 and amended and recertified by the Commission on 9 November 2002 does not impact on the full application of the Community Services Award as amended from time to time (including those provisions in the Award which relate to wage adjustment).
15. Employees will be informed of the taxation implications of their package prior to their entry into the program.
16. No employee is entitled to enter into a remuneration packaging arrangement with TasCAHRD until they have signed a contract as a "permanent" employee of TasCAHRD.
17. Employees are entitled to package up to 50% (with an upper limit of \$30,000 grossed up value, in order not to impose the costs of Fringe Benefits Tax on the organisation) of their gross salary as determined by the Community Services Award as amended from time to time, provided that no total salary (including cash and non cash components) shall as a result of remuneration packaging fall below the annual minimum level of salary payable to employees at their respective levels under the Community Services Award.
18. The calculation of entitlements relating to occupational superannuation and annual leave loading is based on the value of the employee's total wage (including cash and non cash components) as defined in the Community Services Award.
19. Once entered into (and subject to any determination to the contrary made by the Board), the configuration of each remuneration packaging arrangement remains in force until 30 June of the following year and employees are thereafter, unless the Board specifically agrees to an earlier change, entitled to reconfigure such arrangements only on an annual basis to take effect on and from 1 July in each year.
20. Remuneration packaging arrangements are made available to employees only in respect of regular, consistent payments made to bona fide third parties in respect of:

Type 1 Benefits (with grossed-up value of 2.1292 and GST input tax credits):

- car maintenance;

- home garaging of TasCAHRD vehicles;
- house insurance, contents insurance, and car insurance;
- payments for utilities such as gas, electricity, and telephone;
- credit card payments (provided that the card is used only for the payment of Type 1 expenses as defined in this section and for no other purpose whatsoever, provided further that the employee does not use the credit card for cash advances, and provided further that the employer receives from the employee certification that cash advances have not been obtained using the card);

Type 2 Benefits (with grossed-up value of 1.9417 and no GST input tax credits):

- car registration;
- health insurance premiums;
- mortgage or rental payments;
- payments for utilities such as water and rates;
- personal loan repayments;
- school fees and child care fees;
- credit card payments (provided that the card is used only for the payment of Type 2 expenses as defined in this section and for no other purpose whatsoever, provided further that the employee does not use the credit card for cash advances, and provided further that the employer receives from the employee certification that cash advances have not been obtained using the card);

Exempt Benefits (with grossed-up value of 0.00 and with no FBT liability):

- car parking;
- employee superannuation contributions;

Benefits to be assessed as to Type 1, Type 2 or Exempt on a case-by-case basis:

- such other payments as may, from time to time, be approved by the Board of Management on the basis of an application from an employee.
21. In administering the Remuneration Packaging Arrangements, the Chief Executive Officer in consultation with the Council's Accountant will ensure that no employee exceeds the limit of \$30,000 grossed up value, and that use of packaging is limited to those payments specified in paragraph 20 above.
 22. The Chief Executive Officer, in consultation with the Council's Accountant, will each year prepare an annual reconciliation of benefits paid to determine any necessary adjustments. This is necessary as the salary package is determined in advance and the estimated amounts may vary. eg future insurance payments, loan repayments may change with changes in interest rates.
 23. Details of each salary package are to be determined as part of the payroll function.
 24. The Chief Executive Officer in consultation with the Council's Accountant will record benefits paid for each employee in each pay period and will keep a running balance to ensure that the limits are not exceeded.

CALCULATION OF TasCAHRD FRINGE BENEFITS TAX LIABILITY:

25. The benefits available under the Remuneration Packaging arrangements (see paragraph 20 under 'Operational Guidelines' above) are either 'Type 1 benefits' or 'Type 2 benefits'.
26. Type 1 benefits are benefits provided to a particular employee for which the benefit provider is entitled to claim GST input tax credits. Type 2 benefits are benefits

provided to a particular employee for which the benefit provider is not entitled to claim GST input tax credits.

27. The aggregate non-exempt amount refers to the excess over the capping threshold of \$30 000 grossed-up taxable value of benefits provided to employees of PBIs. For PBIs, only the aggregate non-exempt amount is relevant.

28. From 1 April 2001, a PBI will calculate its fringe benefits taxable amount as follows:

The sum of [(Individual type 1 benefits X 2.1292) + (Individual type 2 benefits X 1.9417) - \$30 000]

29. The calculation:

[(Individual type 1 benefits X 2.1292) + (Individual type 2 benefits X 1.9417) - \$30 000]

is done for each employee. If the result is less than zero for any employee, then the result for that employee shall equal zero. The total for all employees with amounts greater than zero is the aggregate non-exempt amount, on which FBT will be payable.

30. Some fringe benefits remain exempt from FBT for PBIs. A PBI will not be liable for FBT when it provides the following benefits to its employees:

- benefits that are attributable to entertainment facility leasing expenses;
- benefits that are exempt from FBT for all employers;
- benefits where the individual grossed-up taxable value for each employee is less than the \$30 000 capping threshold (effective from 1 April 2001);
- car parking benefits;
- certain housing benefits (viz. remote area housing benefits);
- the provision of meal and entertainment benefits.

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