

Salary Packaging – What are the implications for Centrelink, Child Support, HELP, Medicare Levy?

For income tax purposes, you are taxed on your “Taxable Income”, which specifically excludes your salary packaging amounts. They are never subject to income tax.

However, numerous government agencies assess your entitlements or obligations not only on your taxable income, but on your total earnings. Therefore, it is important to understand all the potential implications of salary packaging.

Payment Summary

The Payment Summary will show your total earnings from your employer. This may include:

- Salary and wages (taxable income);
- Reportable fringe benefits amount (ie. the amount salary packaged and reportable); and
- Reportable superannuation payments (ie. salary sacrifice superannuation).

For example, an employee earning **\$69,560** and salary packaging:

- \$15,900 for general expenses (eg. mortgage);
- \$2,650 to holiday accommodation (meal entertainment); and
- \$1,000 into superannuation.

Will have a Payment Summary as follows:

- Salary and wages **\$50,010** (\$69,560 - \$15,900 - \$2,650 - \$1,000)
- Reportable Fringe Benefits Amount **\$35,000** ({ \$15,900 + \$2,650 } x 1.8868)
- Reportable Superannuation Amount **\$1,000**

You will be taxed on only \$50,010. However, you must report each amount shown above when estimating your income for a government agency (Centrelink, child support, HELP etc). Otherwise, you risk under declaring your earnings.

The impact of salary packaging on your entitlements or obligations does vary between government agencies.

Centrelink

Salary packaging should not impact your Centrelink entitlements (compared to someone not salary packaging).

This is because Centrelink will assess you on the ‘cash’ (net) value of salary packaging, not the grossed-up value. How?

Using our example, an employee must report each of the Payment Summary values to Centrelink (including the \$35,000 Reportable Fringe Benefits Amount (salary packaging)). Now, Centrelink understand you did not receive \$35,000 from salary packaging, so they reduce this figure to its cash (net) value as follows:

- Reportable Fringe Benefits Amount x 0.53
- Eg \$35,000 x 0.53 = **\$18,550**

In calculating your earnings, Centrelink ‘adjust’ your reported salary packaging (\$35,000) to the cash value (\$18,550, being \$15,900 + \$2,650). This is good because Centrelink have arrived back at the salary package amount. Centrelink’s total earnings calculation (or ‘adjusted income’) is now :

- Salary and wages **\$50,010** (\$69,560 - \$15,900 - \$2,650 - \$1,000)
- Salary Packaging Amount **\$18,550**
- Reportable Superannuation Amount **\$1,000**
- Total ‘adjusted’ earnings **\$69,560** (value used for entitlement assessment)

The value used by Centrelink (\$69,560) is identical to your earnings figure before salary packaging. Hence, your Centrelink entitlements should remain unchanged if you salary package. It is always important that Centrelink has the correct and current information. GO Salary can assist if needed.

HELP, Child Support, Health Insurance Rebate and Medicare Levy Surcharge

For other government agencies, the calculation (and end result) does differ to Centrelink. Essentially, the actual Reportable Fringe Benefit Amount (\$35,000 in our example) is used to assess your obligations. This may be best explained by using the same example as above.

For example, an employee earning \$69,560 and salary packaging:

- \$15,900 for general expenses (eg. mortgage);
- \$2,650 to holiday accommodation (meal entertainment); and
- \$1,000 into superannuation.

The Payment Summary is as follows:

• Salary and wages	\$50,010 (\$69,560 - \$15,900 - \$2,650 - \$1,000)
• Reportable Fringe Benefits Amount	\$35,000 ({ \$15,900 + \$2,650 } x 1.8868)
• Reportable Superannuation Amount	\$1,000
• Total 'adjusted' earnings	\$86,010 (value used for obligation purposes)

In our example, the 'earnings' value used is \$86,010, compared with a 'salary only' figure of \$69,560. What are the implications ?

1. HELP Repayments

Your HELP repayments will increase slightly as a result of salary packaging. However, any increase in HELP should be out-weighed by the income tax savings, meaning it is still beneficial to salary package. You will actually save income tax and pay off your HELP debt a little quicker by salary packaging.

To calculate your tax savings, use our calculator at gosalary.com.au.

Most importantly, be sure to advise payroll of the additional HELP payments as a result of salary packaging. GO Salary can provide an estimate of the HELP payments required as result of salary packaging.

2. Child Support

Your 'earnings' for Child Support purposes increased as a result of salary packaging. This may increase your obligations (or reduce your child support entitlements). Therefore, think carefully about salary packaging. There was still some worthwhile options (eg. car leasing), so we suggest you contact GO Salary to discuss.

3. Medicare Levy Surcharge / Private Health Insurance Rebate

Your 'earnings' for Medicare Levy Surcharge and Rebate purposes increases as a result of salary packaging. As a result, you may be required to pay the Medicare Levy Surcharge (if you do not have private health cover) or your Rebate may be reduced. In any event, it is likely the income tax savings from salary packaging will out-weigh any increased surcharge or reduced rebate.

Information provided is of a general nature and does not constitute financial advice. Please see an appropriately qualified professional in relation to your particular circumstances.

Questions?

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