



CATHOLIC ARCHDIOCESE OF MELBOURNE

Remuneration Packaging Guidelines
2012/13 Fringe Benefits Tax (FBT) year

16 June 2012

Purpose

The purpose of this policy is to promulgate the Archdiocese's Remuneration Packaging Guidelines for the 2012/13 Fringe Benefits Tax (FBT) year.

Application

This advice provides details of the remuneration packaging policy and arrangements, which are available to full time and part time employees of the Catholic Archdiocese of Melbourne. It does not apply to employees of the Catholic Education Office, the Catholic Development Fund, CatholicCare, or other agencies, which with the approval of the Business Manager, have developed their own remuneration packaging policies. Together with the Tax Acts, it regulates and defines the types of benefits that can be included in an employee's remuneration package and how the benefits are treated for taxation purposes.

Background

Remuneration Packaging enables employees to take benefits instead of salary, which can result in an increase in net remuneration. However, that will depend upon the employee's personal circumstances and it is strongly recommended that employees obtain independent financial counselling before entering into a Remuneration Package Agreement.

Employees who are paid a total remuneration package (TRP) have the option to remuneration package (ie employees whose remuneration is determined through the Executive Remuneration Committee process and those covered by the "Catholic Archdiocese of Melbourne Conditions of Employment for diocesan employees 2011"). For those also covered by an Award, remuneration packaging is limited to the over award component of their remuneration unless the relevant Award provides otherwise. Employees must package the employer's superannuation guarantee (SG) obligations and any employer provided vehicle under the Benefit Car Scheme from within their remuneration.

Remuneration Packaging Options

Employees may determine the mix of salary and benefits from the following.

- Additional superannuation
- Exempt benefits items
- Health fund premiums **(available only to those employed prior to 1 April 2006)**
- Loan repayments

Income tax

The salary portion of the remuneration package will continue to be subject to Pay As You Go (PAYG) taxation deductions in accordance with the Tax Acts.

Benefit related taxation issues

The taxation of the benefits on offer fall into the following categories:

- Tax on superannuation contributions
- Exempt Benefits items
- Fringe Benefits Tax items
- Goods and Services Tax (GST) items

Tax on superannuation contributions

Superannuation contributions are subject to a Contribution Tax of 15% which is deducted by the superannuation fund and remitted to the Australian Taxation Office. From 1 July 2012, High Income Earners are subject to an additional surcharge of 15% and those earning less than \$37,000 a year can expect a refund of the contribution tax deducted from their super account under the Low Income Super Contribution arrangement. There is no Fringe Benefits Tax payable on this benefit. The GST does not apply in respect of superannuation payments.

Employees need to be aware that from 1 July 2007, an employee for whom 'excessive' deductible contributions are made may be penalised.

Deductible contributions for an employee in the 2012/13 income year are excessive if they exceed \$25,000. Deductible contributions include superannuation guarantee and voluntarily contributions made under remuneration sacrificing arrangements.

Where excessive deductible contributions are made for an employee, the employee is penalised by additional tax being imposed on the contributions. They are taxed at 46.5%.

Exempt Benefits items

Airport lounge membership for example is exempt from the application of Fringe Benefits Tax. GST applies.

Fringe Benefits Tax (FBT)

FBT was introduced in 1986 to tax the value of fringe benefits provided by an employer to an employee or associate (related third party) in place of, or in addition to, the employee's salary or wages. FBT is payable by the employer on fringe benefits provided to employees. However, any FBT costs incurred by the employer will be met from the remuneration package of the employee.

Fringe Benefits Tax items

Health fund premiums and loan repayments are subject to the FBT.

GST

The amount of FBT payable is dependent on whether the benefit is subject to GST. For example, if the value of the benefit is \$1,000 and the benefit is not subject to GST eg loan repayment, the FBT is calculated as follows:

Value of Fringe Benefit	=	\$1,000
\$1,000 x 1.8692 (Gross up factor)	=	\$1,869
Grossed up Value	=	\$1,869
Fringe Benefits Tax	=	\$1,869 x 46.5% = \$969

None of the remuneration packaging options on offer, which attract FBT, attract GST.

FBT employment related issues

The Catholic Archdiocese of Melbourne is a rebateable employer for its employees. It is eligible for the 48% FBT rebate up to a grossed up value of \$30,000 which is equivalent to a non grossed up taxable value of \$16,050, where the FBT gross up rate of 1.8692 is used.

Some Church bodies, which use this document as a policy reference, have public benevolent institution (PBI) exempt benefit status up to a grossed up maximum of \$30,000 per annum.

The implication of the rebate and the exemption are explained in the following paragraphs.

Full FBT status employers

$$\begin{aligned} \text{Cost to package} &= \text{benefit} + \text{effective FBT rate} \\ &= \$1 + \$0.8692 \\ &= \$1.8692 \end{aligned}$$

Gross up factor (GUF) = $1/(1-t)$ (where t = applicable tax rate) ie the GUF where full FBT applies (ie 46.5%) = $1/1-0.465 = 1/.535 = 1.8692$. In a Full FBT environment the cost to package of say \$10,000 of packaged payments to a mortgage is \$18,692 (\$10,000 x GUF 1.8692). Put another way, the effective

FBT rate is 86.92%.

Rebate FBT status employers

The rebate is 48% of full FBT, ie the employer pays 52% of full FBT. The effective FBT rate for rebate employers is 45.2% calculated as follows;

Effective full FBT rate $0.8692 \times 52\% = 0.4520$ (or 45.2%).

Exempt FBT status employers

No FBT is payable on benefits up to a grossed up value of \$30,000.

Pastoral Associates

The Archdiocese regards Pastoral Associates accredited at grade 2 level and employed in Pastoral Associate grade 2 positions as religious practitioners for exempt benefit purposes.

Pastoral Associates wishing to access benefits exempt from fringe benefits tax need to do so in accordance with the provisions of Tax Ruling TR 92/17 which can be located on the Australian Tax Office's web sit at

<http://law.ato.gov.au/atolaw/print.htm?DocID=TXR%2FTR9217%2FNAT%2FATO%2F00001&PIT=19930325000001&Life=19921210000001-99991231235959>

The savings resulting from such packaging may by agreement be shared between the employer and the employee.

Impact for Remuneration Packaging

Remuneration packaging works for individuals when the effective FBT rate on packaged benefits is less than the income tax that would otherwise be payable had the amount been received as salary.

At the full FBT rate (1.8692)

Effective FBT rate is exactly the same as the top marginal tax rate. For example the employee needs to earn \$1.8692 gross salary to effectively get \$1.00 net (ie $\$1.8692 - 46.5\% \text{ tax} = \1.00 net).

Accordingly there is no financial advantage in packaging items that incur full FBT. In fact if the employee's marginal tax rate is less than 46.5%, the employee is worse off packaging such items than receiving salary, paying tax and then paying the expense out of after tax income.

At rebate FBT rate (1.45196)

If the employee's marginal tax rate is 46.5% (Gross Up Factor (GUF) 1.8692), 38.5% (GUF 1.6260) or 34% (GUF 1.5151), the employee is better off packaging FBT benefits such as loan repayments rather than receiving salary.

The rebate rate applies to a maximum grossed up value of benefits of \$30,000. In practice, this means the employee could package \$16,050 worth of loan repayments etc (Gross up value (GUV) $= 16,050 \times 1.8692 = \$30,000$ GUV) for a remuneration sacrifice of \$23,304 ($\$16,050 \times 1.45196$).

With no FBT rate applied

Provided the employee's marginal tax rate is greater than 0%, remuneration packaging provides the employee with a net increase in remuneration.

Payment Summary Reporting

Employers are required to report the grossed up value of fringe benefits on the employee's Payment Summary, where the total taxable value of the reportable benefits received in an FBT year exceeds

\$2,000. This is regardless of the status of the employer, ie employees working for a rebateable or PBI employer are treated the same as other employees.

The grossed up value is the sum of the value of the fringe benefit and the FBT that would generally be payable on the fringe benefit. For example, if the value of the benefit is \$2,000 then the grossed up value is calculated as follows (the 1.8692 factor is used on all occasions):

Value of Fringe Benefit	=	\$2,000
\$2,000 x 1.8692 (Gross up factor)	=	\$3,738
Gross up Value	=	\$3,738

Only benefits that attract an FBT liability are reported on the Payment Summary.

The fringe benefits remuneration packaged for the FBT year (ie. 1 April 2012 to 31 March 2013) are reported on the Payment Summary for the financial year ending 30 June 2013.

Employers are also required to report Additional Superannuation on the employee's Payment Summary.

The following is a list of benefit items that will therefore be reported on the Payment Summary:

- Health fund premiums
- Loan repayments
- Car Benefits Scheme where there is an FBT liability
- Additional Superannuation (called Reportable Employer Superannuation Contributions)

The following is a list of benefit items that will not be reported on the Payment Summary:

- Exempt benefits items

The grossed up value of fringe benefits will be included for most government surcharges and income tests.

Additional information on Additional Superannuation

An employee may elect to include additional superannuation contributions to a complying fund chosen by the employee, provided payments can be made by electronic funds transfer and the fund is a public offer fund, as part of their remuneration package. Payments are made monthly. Contributions to the superannuation fund can only be made on behalf of the employee. Employee must provide evidence of membership of the fund and that the fund meets these requirements.

Additional information on exempt benefit items

Items may be packaged on a case by case basis by agreement between the employer and the employee.

Additional information on health insurance (available only to those employed prior to 1 April 2006)

Employees who are members of private health funds may make payments on behalf of themselves or their family on a before tax basis.

Additional information on loan repayments

Employees who have mortgage or other loan repayments, including reimbursement of credit card repayments for non cash items, may make payments on a before tax basis.

Administration

For the 2012/13 FBT year the Catholic Archdiocese of Melbourne provides remuneration packaging services free of charge and employees receive the benefit of all claimable input tax credits. This is provided the employee agrees to be paid monthly. However, it reserves the right to charge where the administrative cost of administering a particular package becomes excessive.

Benefit payments will only be made where the Human Resource Manager has received a signed Remuneration Sacrifice Agreement (see attachment). A new Agreement is required each FBT year.

Staff who enter into a remuneration sacrifice agreement into an FBT year will be transferred to the monthly payroll at the earliest practical date. Those who cease remuneration packaging will be required to remain on the monthly payroll.

Upon commencement of remuneration packaging the cost of the selected optional benefit(s) and any FBT applicable to these benefits following will be deducted on a pro rata basis from the employee's base monthly remuneration.

Payments for benefit items will only be made where sufficient funds exist at the time the payment is due or the employee submits a request for payment. Employees are advised to provide an additional amount to meet any anticipated increases in the cost of that benefit during the FBT year.

All benefit payments will cease for employees on long term leave without pay unless alternative arrangements have been made. Any remuneration packaging arrangements will cease in the event that an employee is suspended without pay. Employees in receipt of workers compensation payments only will have their remuneration packaging ceased.

Any balance remaining in an employee's remuneration package on termination of employment will be paid as salary and taxed accordingly.

An employee may elect at any time to cease remuneration packaging by giving at least twenty eight days notice in writing to the Human Resource Manager. Should the employee wish to recommence packaging within the same remuneration package year, the employee may be required to meet the additional cost associated with the re-establishment of packaging arrangements.

Participation

If you wish to participate in remuneration packaging contact the Human Resource Manager, Catholic Archdiocese of Melbourne. A completed agreement must provide the following details:

- The payment method (monthly payment or reimbursement)
- If a monthly payment, payment amount, the name to whom payments are to be made, the BSB and the account number

Methods of Payment

Payment of benefit(s) will be made in one of the following ways:

- Monthly payment - benefit(s) which have a fixed instalment amount and occur on a monthly basis (eg mortgage payments) will be made to the provider's bank account at the time the payroll is run, ie on or about the 15th of each month. ¹The exception is superannuation payments, which are made at the end of each calendar month at the same time as SG payments are made. All other payments are by reimbursement.
- Reimbursement - an employee who pays the cost of a benefit(s) directly will be reimbursed on request and the provision of the original receipted account. Reimbursement will be by electronic funds transfer (EFT) to the employee's nominated bank account for payment of their salary in a subsequent payroll.

Further information

For further information, contact Tom Carr, Human Resource Manager, Catholic Archdiocese of Melbourne on 9926 5629.

¹ This will be changed during this year such that super payments will be made on or about the 15th of the month.



REMUNERATION SACRIFICE AGREEMENT

Employer

Employee

Agreement Period

This document forms part of your contract of employment with the Catholic Archdiocese of Melbourne and sets out your total remuneration package (TRP) and related matters.

GUIDE TO PACKAGE TERMS

The formal terms and conditions of your TRP are set out under the heading "FORMAL TERMS" below. The following provides a guide to some of the more important items:

- All amounts stated are annual (see Clause 3).
- Adjustments between your cash and benefits components can be made at any time by agreement (see Clause 4). Under normal circumstances, and unless your TRP changes, you are expected to nominate your mix before the commencement of the FBT year which commences on 1 April each year and adhere to that for the following twelve months.
- If the cost to the Catholic Archdiocese of Melbourne of providing any benefit turns out to be more or less than the amount set out above, an adjustment will automatically be made to your cash entitlement to make up the difference (see Clauses 4, 5 and 6).
- Any outstanding amounts on adjustments will be settled up at the time you leave (see Clause 6).
- Statutory superannuation contributions will be made on the basis of the TRP – (TRP divided by 1.09) and are met from within the TRP.
- Termination entitlements are based on the value of your TRP.

If any discrepancy or ambiguity arises between the comments set out above and the Formal Terms set out below, the Formal Terms will take precedence.

FORMAL TERMS

Words which are in ***bold and italics*** have defined meanings that are either explained in the text or are set out in the last paragraph.

1. Your remuneration will be packaged and called your ***total remuneration package (TRP)***.
2. Your ***TRP*** will be payable to you in the form of the following portions:
 - As ***cash*** for the amount set out in Item 2 of the Schedule (***cash*** portion);
 - As ***benefits*** for the value set out in Item 3 of the Schedule (***benefits*** portion).
3. Unless otherwise stated:
 - The amounts and values that make up your ***TRP*** will be calculated annually.
 - Your ***benefits*** will have the values and be provided in the form and on the terms as set out in Item 4 of the Schedule or otherwise in accordance with their terms.
 - The value of each ***benefit*** will be the value as provided over a ***benefit period*** and calculated as set out below. Such value will be taken to accrue to you on any benefit over each ***benefit period*** in accordance (as nearly as is practicable) with the application use or enjoyment of that

benefit. Where it is not possible to apportion the provision of a **benefit** to particular times or periods within a **benefit period**, the value of that **benefit** will be deemed to accrue daily over each **benefit period**.

4. The components of your **TRP** may be varied during the agreement period at any time if agreed to in writing between you and the Catholic Archdiocese of Melbourne. If you are granted an increase in your **TRP** amount during the agreement period the components of that increase may be provided in the form of **cash** and/or **benefits**. However unless the components are agreed in writing between you and the Catholic Archdiocese of Melbourne any such increase will be provided solely in the form of **cash**. Where any such variation or increase is agreed to include **benefits** the principles set out in clause 5 will apply.
5. Your **TRP** is calculated having regard to the cost to Catholic Archdiocese of Melbourne of providing all components of your **TRP**. The cost to the Catholic Archdiocese of Melbourne of providing **benefits** is determined by comparison with the payment of an equivalent amount of **cash**. This cost may vary during the agreement period. Alternatively, the value of a **benefit** as set out in the Schedule may vary during the agreement period because it is an estimate or is contingent upon other things occurring. Any such variation may (at the Catholic Archdiocese of Melbourne's discretion) result in an adjustment being made between your **cash** portion and parts of your **benefits** portion to ensure that your **TRP** amount is maintained. Without being exhaustive, an adjustment reducing your **cash** portion may be made during the agreement period as a consequence of an increase in the cost to the Catholic Archdiocese of Melbourne of providing any **benefit**:
 - Where that **benefit** ceases to be fully tax deductible to Catholic Archdiocese of Melbourne.
 - Where fringe benefits tax (**FBT**) becomes payable by Catholic Archdiocese of Melbourne on the provision of that **benefit** or the amount of **FBT** payable by Catholic Archdiocese of Melbourne on that **benefit** is increased for any reason.
 - Where goods and services tax (**GST**) becomes payable by Catholic Archdiocese of Melbourne on the provision of that **benefit** or the amount of **GST** payable by Catholic Archdiocese of Melbourne on that **benefit** is increased for any reason (note that the application of **GST** to a **benefit** may also affect the application of **FBT** to that **benefit**). Without being exhaustive, when calculating the cost to Catholic Archdiocese of Melbourne of **GST** on any **benefit**, regard may be had to:
 - the **GST** market inclusive value of the benefit; and
 - the benefit to Catholic Archdiocese of Melbourne of any **input tax credits** arising in Catholic Archdiocese of Melbourne in respect of the provision of the **benefit**
 - Where there is an increase in the reasonable costs of administering any scheme of which the provision of that **benefit** forms part. Alternatively, where a decrease in the cost to Catholic Archdiocese of Melbourne occurs, an adjustment will be made in your favour.
6. Any adjustment made under Clause 5 will be made as soon as is practicable after the excess or shortfall is known. To the extent that any adjustment in Catholic Archdiocese of Melbourne's favour cannot be fully recovered by reduction of the **cash** component, you will be notified of the balance owing and will be required to pay that balance to Catholic Archdiocese of Melbourne within 30 days of written notification to you or on the date your employment terminates (whichever occurs earlier).
7. **The superannuation guarantee charge** amount is to be met from within the **TRP** amount.
8. Upon termination of your employment your long service leave, other statutory entitlements and other termination payments will be based upon your **TRP**.
9. You will obtain and provide to Catholic Archdiocese of Melbourne all necessary declaration forms, receipts and supporting documentation necessary on your part under the **Tax Acts** in respect of any **benefits** provided to you under this agreement.
10. The terms set out in this document take precedence over any conflicting terms or representations (present or future, written or oral) between you and Catholic Archdiocese of Melbourne unless

those conflicting terms or representations are in writing and are expressly stated to replace or vary the terms set out in this document.

11. Definitions and Interpretation

Additional superannuation

Means superannuation contributions to be made as part of the **benefits** portion and being more particularly described in Item 4.

Benefits

Means **superannuation guarantee charge, additional superannuation, fringe benefits** and **exempt benefits**

Benefit period

Means the provision of a **benefit** over a period of 12 months.

Cash

Payments made to you that are subject to PAYG tax

Exempt benefits

Means benefits which are “benefits” for the purposes of the **Tax Acts** but which are excluded from the definition of “fringe benefit”.

Fringe benefits

Means benefits which are “fringe benefits” for the purposes of the **Tax Acts**.

GST Act

Means A New Tax System (Goods and Services) Act 1998.

GST exclusive value

Has the meaning defined in the **Tax Acts**

GST market inclusive value

Has the meaning defined in the **Tax Acts**

Input tax credit

Has the meaning defined in the **Tax Acts**

Superannuation guarantee charge

Means an amount calculated in accordance with the following formula:

$TRP - (TRP / 1.09)$

for the Catholic Archdiocese of Melbourne in respect of the employee for the purposes of Part 3 of the **Superannuation Guarantee (Administration) Act 1992**.

Tax Acts

Means the Income Tax Assessment Act 1936, the Income Tax Assessment Act 1997, the Fringe Benefits Assessment Act 1986 and the GST Act.

Total remuneration package

Includes all benefits, cash and the cost to the Catholic Archdiocese of Melbourne of meeting the FBT arising from the provision of the benefits.

References to the singular include the plural and vice versa and references to any gender include other genders. References to a person includes a firm, body corporate, body politic, unincorporated association or authority.

References to a party include that party's successors, legal personal representatives, nominees, administrators, substitutes (including, but not limited to, people taking by novation) and permitted assigns. References to any statute include that statute as amended or substituted from time to time and any regulations made pursuant to that statute.

SCHEDULE

Item	Description	Provider details	Value	Schedule
1	Total remuneration package		\$	M
2	Cash portion (salary)		\$	M
3	Benefits portion		\$	M
4	Cash portion breakdown			
	Tax		\$	M
	Benefit car scheme - employee contribution (ECM) ²		\$	M
	Balance		\$	M
5	Benefits portion breakdown			
	SG superannuation		\$	M
	Additional superannuation		\$	M
	Benefit car scheme, before tax contribution		\$	M
	Notebook computer or other exempt benefit		\$	R
	Health fund premiums		\$	R
	Loan repayments - direct		\$	M
	Loan repayments - reimbursements		\$	R
	FBT contribution		\$	M

M = Monthly on or about the 15th of the month excl super (EFT only)

R = Reimbursement, eg you purchase a notebook and claim reimbursement

The Archdiocese will make payments as indicated to the extent that funds have been set aside.

I understand and agree to the terms set out and acknowledge that I have been advised to seek financial advice on this matter.

Signed by Employee..... Date / /201

Signed by Employer..... Date / /201

² The ECM must equal the estimated taxable value of the benefit. The taxable value of the benefit will most probably change with a change over of car and will change if the distance travelled in the FBT year moves outside of the chosen distance travelled bandwidth. If the employee contribution does not equal to the taxable value, the employee will need to make good the difference.