AN INTRO TO

SALARY PACKAGING

An introductory guide to salary packaging
and what you need to know

MOTOR VEHICLE SOLUTIONS

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Service, Price & Unbiased Advice

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Introduction

Dear reader,

Over 25 years ago, I began my independent journey into the vehicle finance industry, as I believed customers were not receiving an adequate service from finance brokers.

In 1989 when I began Corporate Financial Services, I saw the way in which customers were regarded by those in the industry as opportunities to be taken advantage of. Due to the highly specialised knowledge required in the finance industry, many would look to exploit the customers ignorance to their benefit.

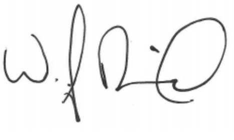
I firmly believe that fostering strong business relationships through mutual benefit is the best business plan for the finance industry. These business practices have continued to be the cornerstone of our finance and subsequently our vehicle sales business.

The salary packaging industry has reignited my passion for customer service. I see the same examples of uninformed customers being taken advantage of in relatively new financial practices.

This is why we at Motor Vehicle Solutions were inspired to produce this document on salary packaging: we believe that through properly explaining salary packaging and its misconceptions to the customer, the will reach an informed conclusion and realise the ways in which salary packaging can significantly benefit them.

Please contact us if you have any further questions or would like a personalised estimate to better understand the savings available in your personal circumstances.

Best regards,



Director
Motor Vehicle Solutions

Salary packaging explained

What is salary packaging?

Salary packaging is when an employer replaces cash with an equivalent fringe benefit that makes up part of an employees total remuneration package. While some companies offer their employees access to fringe benefits as part of their remuneration, this document refers to those who sacrifice their own salary to fund the purchase of the benefit.

Many individuals have a 'salary package' they receive from their employer, but many employees do not take full advantage of the financial benefits of salary packaging, and reducing their income tax expense.

In the simplest terms possible: Salary packaging allows you to pay for certain items with your pre-tax salary. This saves you money by reducing the income you are taxed on, and thus reducing your annual income tax expense.

How salary packaging works

On the next page is an example provided by a salary packaging calculator and gives an estimated breakdown of the figures involved in salary packaging a $30000 small car that does 15000km on a $65000 annual salary.

This only shows the savings possible on a salary packaged vehicle, and doesn't include other items you can salary package for further savings.

Salary packaging explained

	Salary Only (No Packaging)	Salary Packaging a car
Annual Salary	$65000.00	$65000.00
Less salary sacrifice	$NIL	$ 6715.02
Taxable income	$65000.00	$58284.98
Less income tax (2014-15 rates)	$12672.00	$10489.62
Less 2% Medicare levy	$ 1300.00	$ 1165.70
Income after tax and salary sacrifice	$51028.00	$46629.66
Less post-tax employee contribution (FBT)	$NIL	$ 5654.24
Less car expenses	$12563.65	$NIL
Net disposable income	$38464.35	$40975.42
Fringe benefits amount	$NIL	$NIL

Although salary packaging ensures you save money through reducing income tax expense, brokers can still maximise the potential savings you would receive. This is achieved through a focus on obtaining the most competitive prices on vehicles, financing, and vehicle running costs. This is unlike certain salary packaging companies who just rely on the tax savings already available to salary packagers to persuade customers.

People can be hesitant to adopt new financial practices, and are understandably sceptical of salesmen harping on the benefits and necessity of these practices, due to concerns of being taken advantage of. This document aims to inform and highlight the benefits of salary packaging to allow customers to form their own opinions on the practice without listening to a sales pitch. We are confident that through properly explaining salary packaging to the layperson and clarifying common misconceptions, customers will come to the same conclusion: they can personally benefit from utilising salary packaging.

What can I salary package?

Ultimately your employer makes this decision, as it depends on what they are willing to allow you to package. As it involves your employer offering fringe benefits instead of salary, it is quite dependent on your personal employment circumstances. Speak to your HR manager to find out more specific information on what you can personally package.

The Australian Tax Office (ATO) state:
"There is no restriction on the types of benefits that can be sacrificed. The important thing is that these benefits form part of your remuneration, replacing what otherwise could have been paid as salary."

The ATO is not particularly worried about what is included in your fringe benefits package, as long as the employee receives fair compensation for the surrendered salary.

The only individuals that have significantly different packaging options are those who work in a Public Benevolent Institution (not-for-profit hospitals, charities etc.) For these employees, there are some extra items available, such as: bills, meal cards and loan/mortgage repayments. However, the largest extra benefit given to these employees is the allowances given for the fringe benefits tax.

What can I salary package?

Fringe Benefits Tax (FBT) and Public Benevolent Institutions (PBI)

FBT will be more thoroughly explained later in this document [link to FBT page], but in basic terms FBT is a tax that is placed on fringe benefits that are provided by an employer. FBT on salary packaging arrangements is calculated differently than fringe benefits solely provided by the employer, as fringe benefits are treated differently by the ATO when the employee is paying for them. Not all salary packaged benefits attract FBT, and those employed in certain industries can take further advantage of these tax benefits through FBT-exempt allowances.

Public Benevolent institutions: those that are employed by public benevolent institutions (PBI) are eligible to FBT exemptions, depending on if their employer fall under full ($30000) or partial ($17000) FBT-exempt allowance.

Partial FBT allowance jobs: Public and non-profit Hospitals, Public ambulance services
Full FBT allowance jobs: Public benevolent institutions (except hospitals), health promotion charities.

FBT-exempt allowances are the total gross price of all items that an employee can salary package without paying any FBT on their fringe benefits. This effectively results in paying no tax on any items that fall within this allowance, as these benefits do not incur income tax, GST, or FBT.

In order to receive the full FBT allowance, you must work for a company registered as a PBI or charity with the Australian Charities and Not-for-profits commission (ACNC).

What can I salary package?

What items can be packaged?

The most common items that people salary package are cars, extra superannuation, and laptops. However, the array of items that can be included in a salary packaging arrangement are more varied than many realise. While it ultimately depends on your employer to decide what you can include in your salary packaging agreement, the options include:

Popular packaging items:

Car – arrange for your employer to pay all expenses related to your vehicle out of your pre-tax salary. Combining the income tax savings of salary packaging with FBT exempt items such as vehicle running costs lead to the most significant financial savings possible.

Super – personal contributions to superannuation funds are extremely common, and utilising salary packaging allows employees to increase this fund whilst also decreasing their income tax (note: your personal super contributions do not have to be to the same super fund your employer contributes to.)

Laptops –many people salary package their laptops every year, either through buying them outright, or rental agreements. Every individual can package one laptop every FBT year (April 1st – March 31st). (note: if you have a rental agreement, you can upgrade your laptop to a new one every FBT year)

What can I salary package?

What items can be packaged? (continued)

PBI's:

For those that work in a public hospital, a private not-for-profit hospital, aged care facility, public ambulance service or an ATO-approved charity (Public Benevolent Institution), you are able to use a **meal card** to pay for meals out of your pre-tax salary. You are also given an annual allowance in which items do not attract FBT, these include: **living expenses, mortgage/loan repayments, rent, credit card payments, bills, aged care expenses, disability care, external childcare, private health insurance, HECS debt,** and **school fees.**

Professional development items:

Development related travel expenses, professional association/union fees, course/qualification education fees, work related publication subscription fees.

Electronic devices/tools:

Devices primarily used at work: mobile phone, tablets, calculator, GPS, computer software etc., tools of the trade, work-related equipment.

Work related expenses:

Work-related relocation expenses, living from home allowance, taxi costs to/from work, uniform, home office expenses, airline lounge membership fees.

The benefits of salary packaging

Income Tax

The potential income tax and GST savings are the biggest motivating factor for those interested in salary packaging. It is difficult to provide a percentage or a solid figure in this region due to FBT and variable income tax rates. However, to best educate yourself on your possible savings, you should examine the individual income tax rates from the ATO.

In the 2015/2016 financial year, the income tax rates are:

Taxable income	Tax on this income
0 – $18,200	Nil
$18,201 – $37,000	19c for each $1 over $18,200
$37,001 – $80,000	$3,572 plus 32.5c for each $1 over $37,000
$80,001 – $180,000	$17,547 plus 37c for each $1 over $80,000
$180,001 and over	$54,547 plus 45c for each $1 over $180,000

As you do not pay GST or income tax on any sacrificed salary, the only form of tax you pay in a Salary Packaging arrangement is 20% of the asset price from post-tax salary for Fringe Benefits Tax (FBT). However as you are charged close to 20% income tax over $18000, and your sacrificed salary is removed from your highest tax rate, the tax savings in almost every case far outweigh the FBT expense.

The benefits of salary packaging

Medicare Levy

The ATO has set the Medicare levy rate at a further 2% of annual income on top of income tax. The figure used to assess this levy can be lowered through salary packaging certain fringe benefits.

Not all fringe benefits that can be packaged reduce your Medicare levy. However packaging certain items can significantly lower your income tax alongside your Medicare levy.

The Australian governments financial advice site, 'Moneysmart' has a page on Salary Packaging and states that packaging the following benefits does not increase your Medicare levy:

- Cars
- Health insurance
- Loans (usually for cars)
- School fees
- Childcare fees
- Other personal expenses

Convenience

For the employee, you can save time along with money. While salary packaging is predominantly to allow you access to tax savings, it can also increase your spare time. Your salary packaging company work with your employer to pay the costs related to the fringe benefit for you, which results in you spending less time paying bills.

The benefits of salary packaging

Convenience (continued)

All of this is available without needing to prove the benefit is for business use. No more need to record every kilometre driven in a company car or provide a letter from your accountant proving more than 51% is for business use. **No log books and no proving business use.**

Lease payments, insurance premiums, tyre/service costs, roadside assistance, and many other singular expenses can be condensed into one payment, which your employer pays for you every pay cycle. The money is already sitting in your account, waiting to be used when necessary, which saves you from having to try and find the money when expenses arrive at inconvenient times.

FBT exempt items

Fringe Benefits Tax (FBT) is the equivalent tax on salary packaged items, this ensures that the Australian Tax Office receives some revenues from salary packaged items. As an employee, the most important part to recognise is that some items that are salary packaged are exempt from FBT, and as they are already exempt from GST and income tax, are basically tax-free. While items such as a motor vehicle purchase will attract FBT at a rate of 20%, items such as related vehicle running costs do not attract FBT and save you an extra 20% on top of your income tax savings.

For more information on understanding FBT and FBT-exempt items, click here.

The benefits of salary packaging

GST

You do not pay GST on any benefits included in your salary package. If an employer provides a fringe benefit for an employee as part of a salary packaging arrangement, the employee is charged the purchase price of the benefit without GST. This is because employers can claim a tax credit from the ATO for any GST included in goods/services purchased for the business, called an input tax credit.

For example, in a novated lease (the type of lease used for salary packaging a vehicle), the financier essentially purchases the vehicle off the supplier, and then sells it to the lessee. The financiers claim all GST paid on the vehicle back from the ATO as an input tax credit, which removes GST from the purchase price of the vehicle.

On top of this, GST is payable on vehicle lease payments and vehicle operating costs, which will be refunded back to you as the employer claims the input tax credits. Therefore, your novated lease is exclusive of GST. GST is only payable on a salary packaging arrangement if:

- You cancel your salary packaging agreement but continue to make lease payments (GST payable on lease payments)
- The lease is terminated early (GST payable on payout amount)
- The lease matures and residual falls due (GST payable on residual and responsibility for GST falls on employee)

CHAPTER

2

Getting Started

- Information for employers
- Information for employees
- Understanding “fringe benefits” and FBT

Information for employers

Although the majority of reasons for salary packaging are focussed on the benefits given to employees, these agreements are mutually beneficial to both employees and employers. Just because the employee is able to benefit, does not mean the employer must be negatively affected. There are salary packaging benefits for employers too, these include:

Increase in remuneration you offer employees

One of the most unrecognised benefits is a significant increase in the remuneration an employer can offer to their employees with little or no extra cost to them. Salary packaging benefits such as vehicles and related vehicle running costs can increase the salary you offer an employee without having an increase in wages expense, or dealing with the headaches of company cars and car allowances. This can be a substantial enticement to many potential employees, helping you to recruit and retain the quality staff you need.

Salary packaging is an ATO-approved method to include fringe benefits such as vehicles in an employees remuneration while also lowering their income tax. This is available without extra expense for the employer, as the packaging companies charge account maintenance fees to the employee, and for some more importantly, minimal extra administration time.

Increase administration efficiency

Many employers who are interested in salary packaging are often concerned about further complicating their payroll. If you were to offer these fringe benefits to employees without salary packaging, the administration workload would substantially increase to pay all related bills individually. With salary packaging, the elected company will organise a packaging arrangement with the employee (depending on what the employer or HR representative have allowed to be packaged). All that is required of the employer is to pay the agreed upon portion of the employees wages into their salary packaging account, and the rest to their usual account.

Salary packaging allows employers to offer these fringe benefits to their employees without concerns over significantly increasing your accounting workload.

Information for employers

No unnecessary or unwanted assets

In especially turbulent job industries with higher than normal job turnover, fringe benefits and large assets are met with concern. Employers are often concerned with being stuck with unnecessary fringe benefits if an employee leaves their company. With salary packaging, responsibility of the fringe benefit reverts to the employee if they ends their salary packaging arrangement, or their lease ends. The fringe benefit is not shown on the company balance sheet, and you are not forced to sell/reallocate assets, or deal with concerns of depreciation or residual values of these benefits.

Input tax credits

Until a salary packaging arrangement is ended, the employer can claim input tax credits on all GST incurred in payments for that arrangement. This is because throughout the duration of the salary packaging agreement, responsibility for payment of benefits falls to the employer.

For example: while the financier would claim the input tax credit for GST on vehicle purchase, the employer can claim an input tax credit for GST incurred on all vehicle lease payments and for all related vehicle running costs.

Information for employees

Changes to taxation/annual tax group certificate

Through salary packaging you will see a reduction in the income listed on your ATO annual income tax group certificate, as your sacrificed salary used to pay for your fringe benefits will not be shown on the certificate. The sacrificed salary would be taken from your top tax rate, providing the largest possible income tax savings. Certain benefits, such as motor vehicles and loans related to vehicles, also lower your Medicare levy through reducing taxable income and not increasing your reportable fringe benefits.

For further information on the Medicare levy and Salary Packaging, click here.

FBT and salary packaging

FBT on salary packaged items is calculated in a different, much lower tax rate than for businesses. As the employee is contributing to the asset when salary packaging fringe benefits, the employee is not charged FBT at the same rates as companies. For all new salary packaging arrangements, employees are charged 20%, and some fringe benefits are exempt from FBT.

While an employee is required to pay FBT on the purchase price of a fringe benefit they are salary packaging, there is no FBT charged on the related expenses for that benefit, such as with a vehicle: fuel, tyres, roadside assistance, insurance, registration, stamp duty etc. These can mean significant expenses incurred yearly are basically tax-free to those utilising salary packaging, as they do not incur GST, FBT or income tax. In this case, your savings on these related expenses are the same as your top tax rate.

Information for employees

Employees that do not work full time

While the majority of employees that salary package are on a traditional, full time job, you do not have to be employed full time in order to be eligible for salary packaging. An employer can offer salary packaging as an incentive to part time or casual workers if they wish to do so.

While salary packaging is available regardless of number of hours worked, it is less beneficial for those paying low income tax rates. Those who do not work full time often have much lower income tax expense than their full time counterparts, which can make reducing income tax expense to make salary packaging worthwhile, especially when no income tax is incurred up to $18200 annually.

Monitoring your salary packaging account

While you are able to personally source the fringe benefits from independent locations, your employer often determines the companies you hold your salary packaging agreement with. The employer will work with the salary packaging company to set the basic salary packaging guidelines for their employees.

At the time of entering a salary packaging agreement with the related company, you will be informed of how you can monitor the balance of your salary packaging account. If more money than is necessary is taken out of your account, you can call your salary packaging company and ask them to add it back to your income, after it is taxed accordingly. If there is not enough to cover your expenses, you can call the salary packagers to take more out.

Information for employees

Changing employers

You **CAN** continue the salary packaging arrangement you currently hold with your new employer, if it fits within the salary packaging guidelines and restrictions of your new employer. While changing employers will require you to begin a new agreement, this does come with added advantages, such as revaluing the fringe benefit to its current price, not the original purchase price. This is the only time the benefit can be re-valued, and as FBT is otherwise calculated by purchase price, it will significantly lower the FBT paid on your fringe benefits, further increasing your tax savings.

Changing jobs, but not employers

In some job industries, you can change your job consistently without a change to your employer or payslip. The ATO does not consider this as a change of job, and will allow employees to continue their previous salary packaging agreement, unhindered and unaltered.

Those who work in industries such as the department of education (public school teachers), police department, fire brigade, government workers etc. who can change jobs but keep the same employer are able to continue their salary packaging arrangement at their new job. You can keep the same fringe benefits and same repayment schedule without starting a new salary packaging arrangement.

While many facets of the changing of jobs can be quite disruptive, the convenience of continuing the unhindered salary packaging of your fringe benefits can help to make the transition easier.

Note: The ATO only considers a change of employer as a change of your company/ department payslip. E.g.: teachers that begin at to a new public school, but are still paid by the department of education, the ATO does not consider this a new employer.

Information for employees

HECS Debt

Although salary packaging reduces your taxable income, packaging reportable fringe benefits can increase what the ATO uses to calculate your HECS debt repayments. This means that it is possible for HECS/HELP payments to slightly increase.

This is calculated using your annual income alongside your total Reportable Fringe Benefits amount as found on your annual income tax group certificate. This does mean that with salary packaging, your HECS/HELP debt repayments could slightly increase. The more fringe benefits you salary package, the more you increase the chances of increasing your HECS/HELP repayments.

However this increase in repayments could be seen as a hidden advantage for those utilising salary packaging. As the income tax savings vastly outweigh the possible HECS/HELP repayment increases, this allows you to pay off your debt at a faster rate, whilst still benefiting from salary packaging and having more disposable income. **You can pay off your HECS debt with money that otherwise would have gone to the ATO as income tax.**

For those that wish to further accelerate their repayment of HECS/HELP debt, voluntary extra repayments can be salary packaged for the income tax savings. These savings, alongside the Australian Tax Office adding a 5% bonus to all voluntary repayments over $500, are great incentives for former students to pay back their education loans at a much faster rate, and be HECS/HELP debt free as soon as possible.

Understanding ‘fringe benefits’ and FBT

What are fringe benefits?

Fringe benefits are benefits other than wages that forms part of an employees remuneration for employment, and are very common. Any non-cash benefits that do not hold an FBT exemption (vehicle running costs, super contributions etc.) given to an employee are considered fringe benefits, and the ATO charge a Fringe Benefits Tax (FBT) accordingly. This is the only form of revenue the ATO collects on FBT as salary packaged benefits do not attract GST or income tax. This also means that FBT-exempt benefits are essentially tax-free.

FBT and Salary Packaging

Those utilising salary packaging can easily misunderstand FBT. Many that try to find information relating to FBT can be scared away from salary packaging through reading figures of close to a 50% tax without realising that this is **NOT** how FBT is calculated for salary packaging arrangements.

As the ATO receives no revenue through income tax or GST, FBT is the only tax applicable to purchases in the salary packaging arrangement. Not all benefits related to your salary packaging are even subject to FBT and many significant expenses that are FBT exempt are basically tax-free.

The ATO has recognised that in salary packaging arrangements the company is not paying for the benefit, and have thus decided to calculate the tax on fringe benefits being paid for by the employee differently than regular fringe benefits, such as company cars etc.

Fortunately with salary packaging, as the employee is sacrificing their own salary to pay for the expenses, **you are not required to pay the regular FBT rate** of 49%**.** **For all new salary packaging arrangements, the equivalent FBT rate is 20%.**

Understanding 'fringe benefits' and FBT

FBT and Salary Packaging (continued)

As salary packaging reduces your annual taxable income, this FBT rate of 20% is compared to the highest income tax rate you would be eligible for. As every dollar earned over $37000 is charged at an income tax rate of 32.5%, (and higher for those who earn over $80000) the savings are apparent and significant even for those who aren't in the top income tax rates.

FBT exempt items

Some items that are considered fringe benefits by the ATO do not attract any FBT. Items such as salary-packaged employee contributions to their superannuation do not attract FBT.

When salary packaging a vehicle: while the vehicle purchase cost attracts FBT, the costs related to running the vehicle, such as fuel, tyres, servicing, roadside assist etc., are not subject to FBT. These running costs can be substantial expenses depending on the kilometres driven, and can offer the largest potential savings available in salary packaging. The savings on FBT for running costs, along with the GST/income tax savings available on the purchase, are the main reasons to salary package a vehicle. The following items are exempt from FBT if salary packaged by the employee.

List of FBT-exempt items:

(vehicle related items)

•Car Registration
•Stamp Duty
•Petrol
•Service Costs
•Insurance
•Roadside Assistance
•Management Fees

Understanding 'fringe benefits' and FBT

FBT exempt items (continued)

- Superannuation contributions (both by employer and employee, but payments to a spouses super are considered a fringe benefit)
- Work related portable electronic device (mobile phone, laptop, GPS etc.)
- An item of computer software
- A tool of trade
- Employment termination payments (e.g.: a car given to employee on termination)

Public Benevolent Institutions and FBT exemptions

If you work for a certain company that the ATO consider a Public Benevolent Institution (PBI), then you can receive further FBT exemptions that allow you to significantly benefit from salary packaging arrangements. The ATO recognises any company registered as a PBI with the Australian Charities and Not-for-profits commission (ACNC).

Type of organisation	"Grossed up" cap threshold	Require ACNC endorsement to receive FBT exemption?
Public benevolent institutions (except hospitals)	$30'000	Yes
Health promotion charities	$30'000	Yes
Public and non-profit Hospitals	$17'000	No
Public ambulance services	$17'000	No

CHAPTER

3

Misconceptions and misunderstandings

- Salary packaging misconceptions
- The ‘big company’ myth
- The concerns with solely using big companies

Salary packaging misconceptions

“I could lose the money I contribute”

It’s your money. Many of those that work in the salary packaging industry constantly have to repeat this message to their customers. The message that they aim to reinforce is simple: all money being used is your money and you can spend (or not spend) it as you wish, salary packaging just saves you money through reducing your tax expense.

As the money being used is salary that you have earned, you can do with it as you wish. Within the guidelines set by your employer, you can add/subtract to your account for as many benefits and associated costs as you wish. If you are able to source benefits or related expenses at a lower cost, it just increases your savings.

There are no compulsory obligations to package anything when starting a salary packaging agreement. If you don’t want to pay for something you were quoted on or don’t want to continue paying for it, you can just remove it from your arrangement and lower your payments. If there is too much money in your salary packaging account, you can have it added back to your regular income, taxed accordingly, and sent back to you as normal wages.

“I have to use a particular packaging company”

Many of the large salary packaging companies have deals with different departments (education, health etc.) and corporations to ensure that their respective employees exclusively create salary packaging arrangements with them. However all this really means is that the company with the department contract must handle the employees sacrificed wages, but sourcing the benefit, financing it etc. is open to you to get the best deal you can.

Salary packaging misconceptions

"I have to use a particular packaging company" (continued)

While the industry you are employed in may require you to use a certain company for your salary packaging arrangement, **you do not have to purchase your fringe benefits from the company maintaining your agreement.** Many of the large salary packaging companies with have their own retail departments selling popular fringe benefits whom they try suggest you buy through out of claimed convenience. Almost all of the large packaging companies have their own vehicle leasing company.

These companies do not make it clear that you are able to source your own benefits, and just utilise them as an account manager. Many customers still believe they have to purchase benefits through the company handling their packaged wages, even though this is not true.

For example when purchasing a vehicle: sourcing your own vehicle and finance allows you to receive the most competitive price on the vehicle purchase and finance repayments, and could save you a significant amount of money.

The benefit of using a smaller company in the salary packaging industry is that they are unlike large salary packagers. Large salary packaging sales representatives are inflexible and can only offer what the company pricing algorithm tells them. Many of the smaller companies are only able to survive in the salary packaging industry by continuously beating the quoted prices of the large companies.

Salary packaging misconceptions

"I don't have any choices in Salary Packaging"

As explained throughout this section, while you may be tied to a certain company for your salary packaging, this does not mean you do not have choices to make that can significantly increase your savings. The large salary packaging companies often emphasise the convenience and simplicity of utilising their service, while reinforcing tax savings. However, this often does not allow you to get the best prices for your items, due to the lack of price competitiveness of the benefits and related finance/running expenses.

The biggest savings are to be found in the biggest expenses, such as vehicles and related finance, but savings can be found in most available fringe benefits. The ability to shop around and get the best possible prices may not be openly advertised by these larger salary packaging companies, but it can result in significantly increasing your savings.

"I'm not eligible to Salary Package"

Many that work in the private sector, or do not work in a traditional full time job believe that they are not eligible for salary packaging. Often these beliefs are held without any enquiry, and are based on assumptions on a variety of factors (job/employment industry/salary etc.) they believe disqualify them from salary packaging. Your eligibility to package key items is dependent on your employers allowing you to take advantage of salary packaging, not the industry you work in or the hours you work.

For those employers that are hesitant about allowing their employees to salary package, read our section on the benefits of salary packaging for employers.

Salary packaging misconceptions

“Money in my salary packaging account must be used or I lose it”

There are multiple reasons you may wish to withdraw money from your salary packaging account (ending the packaging agreement, too much money is taken out etc.) If you decide to end your salary packaging arrangement, as many do when they leave their employment, any unused funds in your salary packaging account can be withdrawn. The funds will be added back to your annual income, taxed accordingly, and then deposited into your nominated bank account.

You can use your salary packaging account to fund as little or as many of the benefits you are eligible to package, and can change this at any time.

The big company myth

What is “the big company myth”?

The ‘big company myth’ is a mindset that many employees come in to salary packaging with. As individuals are often hesitant when undertaking a new financial arrangement, they can be misinformed about the choices they have in the salary packaging process. The myth is a mindset that the company contracted to handle the monetary side of your salary packaging arrangement must organise all aspects of the deal. This mindset often comes across in a comment from potential customers similar to:

“My company/department has a salary packaging arrangement with ________, so I have to do all my salary packaging related activities through them.”

This is false. While you may be required to have your salary packaging account managed by a certain company, you are able to source and get the best possible price on your fringe benefits.

While the big salary packaging companies do not actively promote this myth, they do not try to effectively convey the options that their customers have. They do not clarify these misunderstandings as they stand to increase their business and therefore profit off of them.

How these companies profit from this mindset

As many employees do not have an option as to the company that they salary package with, many assume this is the same with sourcing the fringe benefits. In the same way it is not considered financially sensible to only receive one quote when purchasing a vehicle privately, many do not compare the possible price differences between their salary packaging company and others.

The big company myth

How these companies profit from this mindset (continued)

Many of the larger salary packaging companies have begun their own retail branches of the company to sell the most popular fringe benefits to those in an arrangement with them. While almost all of these salary packaging companies with large contracts have their own vehicle leasing company, many have broadened their retail options to include other popular fringe benefits, such as laptops.

Any company that is maintaining a salary packaging agreement will charge their customers an account maintenance fee, but this is usually only around $300 a year. While this fee covers the expenses involved with salary packaging, it does not allow the company to reach the revenue or profits generated by some of these salary packaging companies in the past. It would not be financially prudent for these companies to offer salary packaging to customers for only the account maintenance fee, and thus their focus is on leveraging their database of salary packaging administration customers to buy/finance benefits through them at prices that aren't the lowest available.

When assessing the suitability of salary packaging for your situation, the most important thing to remember is ***you have more options in salary packaging than you may think***.

The concerns with solely using big salary packaging companies

When organising a salary packaging arrangement, the large salary packaging companies have focussed on convenience, and aim to streamline the purchase and maintenance of an employees fringe benefits through multiple departments within their company. This is to maximise their revenues per customer, as they profit through the maintenance of an employees salary packaging account, alongside selling fringe benefits, leasing, insurance commissions and finance rates. There are some issues with only receiving your salary packaging advice from the one company, and these are the main concerns to be wary of.

Competitiveness of fringe benefit price

The large salary packaging companies like to heavily emphasise the convenience of sourcing popular fringe benefits, such as vehicles and laptops, through them. While the large salary packaging companies often offer the most convenient options for sourcing these fringe benefits, they usually focus on convenience due to lack of price competitiveness.

As these companies profit from selling the benefit to you and arranging related finance, they may try to place pressure on the customer to do all salary packaging related activities through them. This is due to many smaller salary packaging companies emerging and driving up price competitiveness within the industry. Smaller salary packagers are on a continuous basis able to beat the prices on fringe benefits and related costs, saving money for those employees who made the effort to get a second quote.

Inflexibility of sales representatives

When utilising a smaller company while salary packaging, you are never far away from the top of that companies chain of command. The sales representative at a smaller company may have room to negotiate or achieve a better price for the prospective customer, as this is how their business survives in an ultra-competitive industry.

The concerns with solely using big salary packaging companies

Inflexibility of sales representative (continued)

Similar to using the salary packaging calculators available online for preliminary quotes, many sales representatives at the larger salary packaging companies can only offer the figures that the company pricing algorithm give them. This lack of flexibility means they often can't offer a better price when better prices are abundantly available elsewhere, as smaller companies cannot afford to lose so many prospective customers due to high benefit prices.

Competitiveness of finance rates

Financing companies often give discounted interest rates to their best customers, who provide a large volume of loans to the financial institution. If these larger salary packaging companies are able to receive a lending rate that others cannot, then they should be able to offer finance repayments that other, smaller finance companies simply can not match.

However, those employees who receive finance quotes elsewhere are able to consistently beat those offered by larger salary packaging companies. This often happens while having to use higher interest rates than them. In an industry that's repayment prices rely so heavily on interest rates, those with lower interest rates but higher repayments are either adding substantially more commission to their finance deal than the average broker, or they are withholding their interest savings and not passing them on to the customer.

These companies rely on reducing your income tax expense to convince prospective customers to join, while not offering the most competitive prices available.

The concerns with solely using big salary packaging companies

Exorbitant company expenses

Many of the larger salary packaging companies are concerned with portraying themselves as an important financial institution. This includes head offices located in prominent, expensive CBD offices, surrounded by some of Australia's largest companies and financial institutions (including head offices of major banks). These companies can also afford large advertising budgets to provide the most expensive and impressive campaigns to their potential customers.

While these decisions help to build the prestige of a company, these expenses do not offer much in the way of practical usefulness to their customers, but do ensure they have large overheads that must be paid for by their customers. In order to pay for these overheads, these large companies must generate more revenue through their customers, or they must create more customers with similar expenses.

These larger overheads require more revenue per customer, or customers per representative than smaller companies. This means higher prices and/or less personal time available for you with the person in control of your pre-tax salary.

The smaller companies who cannot afford to compete in this way with these companies can only do so in the following way: reduce expenses to lower customers prices and focus on service and price competitiveness. Lower overheads allow companies to spend more money on their service to the customer, ensuring there is more contact time available with the representatives trying to save you money.

As price and service are the only facets that smaller companies can compete in, they must ensure they are able to consistently be the most competitive within these facets, or they will not survive in the Salary Packaging industry.

The concerns with solely using big salary packaging companies

Disclosed insurances

Another main source of revenue for the salary packaging companies is the commission they receive from insurance companies for every insurance package they sell one of their customers. Due to this, some of the large salary packaging companies add multiple insurances to a quote without the customer realising they were included. While these insurances are disclosed, they can be separated into multiple areas of the quote, resulting in at times up to 8 insurances being included within the one quote.

In reviewing a quote that was received by a potential customer of a large salary packaging company, there were two insurances shown in the budget for vehicle running costs, being the regular insurance, and roadside assistance (provided for 12 months by the vehicle manufacturer). Both of these insurances were shown with estimated figures for fortnightly and annual costs. On top of these insurances, there were the following insurances located under "vehicle options":

- Tyre & Wheel insurance
- Loan protection insurance
- Small damage repair insurance
- Total assist insurance
- Paint protection insurance (rust guard)

These insurances are added into the quoted vehicle price, and do not have any estimated costs attributed to them.

When receiving a quote from the large salary packaging companies, feel free to contact us to ensure that you don't pay for any extras that you don't want or need.

Contact us

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LET US HELP

CONTACT US NOW

Speak to us and see how we can improve your salary packaging arrangement to help you get the full potential value of what you're entitled to.

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