



ACT PUBLIC SERVICE SALARY PACKAGING POLICY AND PROCEDURES

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PURPOSE AND APPLICATION

The *ACT Public Service Salary Packaging Policy and Procedures* (“the Policy”) sets out the policies and procedures that apply to salary packaging arrangements in the ACT Public Service, for the information of Territory employees and Agencies, and salary packaging administration providers.

The policies and procedures contained in the document, as amended from time to time, are approved by the Commissioner for Public Administration (“the Commissioner”).

The Commissioner will:

- a) promulgate and maintain the Policy on salary packaging in the ACT Public Service;
- b) approve and review, as required, the menu of benefit items which can be accessed under salary packaging;
- c) not restrict the type of motor vehicle available under novated leasing to employees, except to ensure that they comply with Australian Tax Office (“ATO”) requirements; and
- d) ensure that Rhodium Asset Solutions has the opportunity to be involved in any novated motor vehicle leasing arrangement offered to employees.

This document applies to all ACT Public Service Agencies, including those which have the status of a Public Benevolent Institution (“PBI”) as provided for under section 57A of the *Fringe Benefits Tax Assessment Act 1986*.

DISCLAIMER

The Policy has been prepared without consideration of the particular investment objectives, financial situation and needs of Territory employees (“employees”). In all cases, employees must conduct and rely upon their own investigation and analysis of the information contained in this document. No employee should act on the basis of any matter contained in the Policy without considering and, if appropriate, obtaining legal, financial and other professional advice upon the employee’s particular circumstances.

The actions of the employer, and the salary packaging administration provider, in making payments to a third party for employment benefits in accordance with an employee’s salary package do not in any way imply a transfer of liability to the Territory, or the provider, in relation to any agreement, understanding or obligation between the employee and the third party.

The Australian Capital Territory Public Service (“ACTPS”), each of its employees and every person involved in the preparation of this document, expressly disclaims all liability for any loss or damage of whatsoever kind (whether foreseeable or not) which may arise from any person acting or relying on any statements contained in the Policy, and notwithstanding any negligence, default or lack of care.

This disclaimer does not limit or alter those statutory rights that cannot be excluded.

OVERVIEW

Salary packaging (also called “Salary Sacrifice” and “Flexible Remuneration Packaging”) is a legal process whereby existing cash salary is remodelled by an employee with the approval of the employer, through enabling employment arrangements, into a combination of cash and non-cash benefits. The non-cash benefits are paid for from the employee’s pre-tax salary.

In this way, the income tax payable on the employee’s pre-tax salary is replaced by a combination of income tax and Fringe Benefits Tax (“FBT”). The level of FBT depends on the type and value of the benefit items packaged (see *Menu Items Available for Salary Packaging* at [Appendix D](#)). The tax outcome for each employee will vary depending on the employee’s particular circumstances.

Some benefit items may also attract Goods and Services Tax (“GST”). Salary packaging administration providers also include GST in their fee structure. Under salary packaging arrangements an entitlement to a Goods and Services Input Tax Credit (“ITC”) may arise (see *Guidelines for Agencies for Managing Input Tax Credits* at [Appendix B](#)). Where there is an entitlement to a Goods and Services Input Tax Credit, the employer will claim and return the ITC to the employee.

Employees of Public Benevolent Institution organisations do not incur FBT on a part of the taxable value of those benefit items that are subject to FBT. However, taxation rules now require the taxable value of any fringe benefit, as defined in the *Fringe Benefits Tax Assessment Act 1986*, to be “grossed up” and shown on employee group certificates at the end of each financial year. This applies equally to all employees, including those working in PBIs.

Salary packaging can provide a range of benefits to both employees and employers, such as:

- a) net increases in remuneration for employees;
- b) retention of valued employees; and
- c) attraction of key employees.

This policy and procedure document regulates the parameters, including the types of benefit items that can be salary packaged, and the administrative arrangements that operate in the ACT Public Service. These parameters and arrangements may change from time to time.

The *Fringe Benefits Tax Assessment Act 1986* and *Income Tax Assessment Act 1936* and *1997* regulate the relevant tax payable on such benefits. Any changes to this legislation, or any other legislation, that impacts on salary packaging will be reflected in the employee’s remuneration package and will not increase or decrease the total cost to the employer. Should such a change in legislation occur, the employee will be entitled to amend their salary packaging arrangements in accordance with arrangements set out in this document.

If a higher Fringe Benefits Tax, or any Territory tax equivalent, becomes payable on a packaged item the employee must make payment of the additional FBT amount, or equivalent, to the relevant employer at the end of the reconciliation period.

EXPLANATION OF TERMS

Unless stated otherwise, terms referred to in this document have the following meaning:

Concessionally Taxed Items	Refers to those package items that do not attract full FBT.
Employee Contribution Method	Refers to after-tax salary package contributions made by an employee to reduce the employee's FBT liability.
Exempt Items	Refers to those package items that are exempt from FBT.
FBTAA	Refers to the <i>Fringe Benefits Tax Assessment Act 1986</i> .
FBT	Refers to the Fringe Benefits Tax imposed by the FBTAA.
Full FBT Items	Refers to those package items that are subject to the full rate of FBT.
GST	Refers to the tax imposed as Goods and Services Tax by the GST Act.
GST Act	Refers to the <i>A New Tax System (Goods and Services Tax) Act 1999</i> .
Gross Salary	Represents an employee's cash salary before tax is deducted.
Input Tax Credits	Refers to an entitlement arising under the GST Act.
ITAA	Refers to the <i>Income Tax Assessment Act 1997</i> .
Novated Lease	Under a novated lease, the employee's obligations under a finance lease agreement are transferred (novated) to the employer for the term of the deed of novation.
Otherwise Deductible Items	Refers to those package items for which an employee would usually claim a tax deduction. An employee cannot claim a tax deduction for such package items if they form part of the employee's salary package.
Package Year	Refers to the 12-month period from the commencement of an employee's salary package. At the end of each package year a reconciliation of all payments and balances is made for each employee.
PBI	Organisations which have the status of a Public Benevolent Institution under the FBTAA.
Reimbursement	Refers to the repayment to an employee of monies originally paid out by the employee for package items, upon receipt and product of original receipted accounts.
Salary Packaging	Refers to an arrangement between an employee and the employer whereby the employee elects to exchange cash salary for non-cash benefits. Non-cash benefits can be taken as a range of package items provided for in this Policy.

POLICY STATEMENT

Where salary packaging is to be made available to ACTPS employees this Policy, issued by the Commissioner for Public Administration, provides the framework within which such arrangements will operate. This Policy will be reviewed by the Commissioner as required.

1. Access to Salary Packaging

- 1.1 Voluntary access to salary packaging will be made available to “eligible” employees whose employment arrangements provide access to salary packaging by way of a Letter of Offer (refer to [Appendix C](#)).
- 1.2 Eligible employees include:
 - 1.2.1 Chief Executives, Executives and statutory and other office holders engaged by the ACT Public Service who are covered by a determination of the Remuneration Tribunal which contains a clause providing access to salary packaging.
 - 1.2.2 An officer or temporary employee (including a probationary employee) employed under the *Public Sector Management Act 1994* who is covered by a Certified Agreement, a Special Employment Arrangement (SEA) or an Australian Workplace Agreement (AWA) which contains a clause providing access to salary packaging. A casual employee may, subject to the agreement of the relevant Chief Executive (or his or her delegate) and the administrative capacity of the salary packaging provider, be permitted to salary package some items from the approved menu.
 - 1.2.3 An employee employed under the *Fire Brigade (Administration) Act 1974* who is covered by a Certified Agreement, a SEA or an AWA which contains a clause providing access to salary packaging.
 - 1.2.4 An employee employed under the *Legislative Assembly (Members’ Staff) Act 1989* who is covered by a Certified Agreement or Employment Agreement which contains a clause providing access to salary packaging.
 - 1.2.5 Other employees, where the Commissioner has agreed to additional specific salary packaging arrangements for individual classifications under a Certified Agreement.
- 1.3 Officers who have been declared excess are **not** eligible for salary packaging except with the approval of the relevant Chief Executive after considering any possible liability for the Territory.

2. Financial Advice

- 2.1 Eligible employees must obtain independent financial advice before commencing salary packaging, unless the relevant Chief Executive (or his or her delegate) agrees that the employee may proceed without obtaining financial advice. The requirement to obtain financial advice may be waived, for example, for Fringe Benefits Tax exempt items (such as contributions to a complying superannuation fund), or where a salary package is being extended or renewed without alteration.
- 2.2 Financial advice must be obtained from a suitably qualified financial adviser accredited by a recognised professional association (such as the Financial Planning Association). All costs associated with obtaining independent financial advice are to be met by the employee.

3. Salary for Packaging Purposes

- 3.1 Eligible employees are entitled to salary package up to **one hundred percent** (100%) of their available gross salary for packaging purposes as non-cash package items, after the deduction from salary of any compulsory superannuation contributions, fringe benefits tax and other payroll deductions.
- 3.2 Any Fringe Benefits Tax payable on an employee's proposed salary package is to be included for the purposes of calculating an employee's available gross salary, irrespective of whether the employee chooses to make contributions towards the FBT liability.
- 3.3 Salary for packaging purposes is the relevant salary specified in the employee's Employment Agreement, Certified Agreement, SEA or AWA. It does not include variable or occasional payments such as higher duties, shift and penalty allowances, overtime payments etc. unless these have been converted to an annualised salary, or pay increases received during the package year. Such additional payments will be paid as an adjustment to cash benefits.
- 3.4 An eligible employee's salary for superannuation purposes (including the productivity superannuation component) and severance or termination payment will be the gross salary the employee would have received if not taking part in salary packaging. Eligible employees will continue to contribute to their current superannuation scheme, and the level of the employer contribution will be, on the same basis as applied before salary packaging. Benefits payable under the Commonwealth superannuation schemes will continue to be calculated on the same basis.
- 3.5 An eligible employee's salary for compensation purposes, under the *Safety Rehabilitation and Compensation Act 1988*, will not change as a result of salary packaging. Eligible employees may continue their salary packaging arrangements while on compensation. COMCARE will not provide any compensation for any loss of taxation relief or investment benefit if the employee is retired because of a compensation-related condition or ceases to be an eligible employee.
- 3.6 Eligible employees must give an undertaking, by way of the Agreement attached to the "Letter of Offer" (at [Appendix C](#)), that they will not use salary packaging to reduce their gross salary in an attempt to reduce their liability for any legally binding payments such as child support, or to access Australian and Territory Government provided benefits such as social security payments.

4. Approved Salary Package Items

- 4.1 Eligible employees may only salary package benefit items from the approved menu determined from time to time by the Commissioner for Public Administration (refer to [Appendix D](#)).
- 4.2 In general, benefit items that are tax effective for salary packaging purposes are those items that do not attract FBT or are concessionally taxed.

5. Salary Packaging Costs

- 5.1 All direct costs from salary packaging are to be met by participating employees, including:
 - a) salary package payments;
 - b) all administration fees or charges;
 - c) any Fringe Benefits Tax and Goods and Services Tax payable (where applicable);
 - d) any costs associated with obtaining financial advice;
 - e) any costs resulting from changes to legislation or Government taxes or charges.

- 5.2 Should there be an increase in taxation payable by the employer, including FBT or any tax equivalent, the employer shall pass on such costs to the employee. In the event of such a change, the employee will be entitled to amend their salary packaging arrangements in accordance with the Policy.
- 5.3 Eligible employees are permitted to use the Employee Contribution Method (“ECM”) as part of their salary packaging arrangements. The Employee Contribution Method involves the employee making a contribution in after-tax dollars to reduce the taxable value of the fringe benefit.
- 5.4 Where an employee has an entitlement to a Goods and Services Input Tax Credit (“ITC”) under a salary packaging arrangement, the employer is required to claim the ITC and credit it to the employee’s salary package account, or refund the ITC to the employee through the payroll system as salaries and wages, in accordance with the *Guidelines for Agencies for Managing Input Tax Credits* at Appendix B.

6. Portability of Salary Packaging

- 6.1 An employee’s salary packaging arrangement is portable across Territory Agencies provided salary packaging is available in the receiving Agency and the receiving Agency formally approves the employee’s salary package. The employee is responsible for obtaining approval from the receiving Agency and for notifying the provider of their change of employer.
- 6.2 In the event that Administrative Amendment Orders are issued which affect the operational nature of a Territory Agency or organisational unit, affected eligible employees will continue to be able to salary package until a new industrial agreement or contractual arrangement is in place.

7. Changing a Salary Package

- 7.1 In general, once an eligible employee has in place a salary package the package is fixed for a full 12-month period, the “package year”.
- 7.2 Towards the end of each package year employees should review the components of their salary package and may vary the package items for the following year.
- 7.3 If an employee decides to vary his or her salary package it is recommended, before doing so, that the employee seek advice from a qualified and independent financial adviser.
- 7.4 Where an employee, who is currently salary packaging, wishes to increase his or her salary package amount the employee may **only** do so as part of the employee’s annual review.

8 Ceasing Salary Packaging

- 8.1 Employees may cease salary packaging at any time during the package year provided the relevant Chief Executive (or his or her delegate) is satisfied this is justified on the grounds of a significant change in the employee’s personal or financial circumstances. These circumstances could include:
 - a) ill-health;
 - b) separation, divorce or death of a domestic partner;
 - c) extended leave;
 - d) substantive change in salary;
 - e) legislative change impacting on salary packaging;
 - f) a change to the employer’s FBT status.
- 8.2 In the event that the employee ceases employment with the Territory, or ceases to be an eligible employee, all responsibility for their salary package will revert to the employee.

ADMINISTRATIVE ARRANGEMENTS

The following administrative arrangements will apply to salary packaging across the ACTPS.

There are four parties involved in salary packaging arrangements, the Agency, the Employee, the employee's Financial Adviser and the Bureau Service Provider. The responsibilities of each of these parties are summarised in this section.

9. Bureau Service Providers:

- 9.1 The panel of approved bureau service providers eligible to provide salary packaging administration services to the ACT Public Service, and their website addresses, is as follows:
- McMillan Shakespeare Australia - www.mcms.com.au
 - Paradigm Total Salary Management - www.paradigmtsm.com.au
 - Salary Packaging Services Australia - <http://www.salary-packaging.com.au/>
 - SmartSalary - www.smartsalary.com.au
- 9.2 Notwithstanding the bureau service arrangements set out in paragraph 9.1, the Commissioner may approve other administrative arrangements, including in-house provision.
- 9.3 Employee's may have a choice of bureau service provider depending on the administrative arrangements in place within their Agency.

10. Agency responsibilities:

- 10.1 The Agency will:
- a) select one or more bureau service provider to undertake administration of salary packaging for eligible employees;
 - b) establish a salary packaging specific "holding account" with the Territory's nominated Bank into which employee salary packaging monies (including any FBT) will be transferred;
 - c) arrange for the bureau service provider to have access, by Electronic Funds Transfer ("EFT"), to the Agency's specific salary packaging holding account;
 - d) determine the level of training agency personnel and finance staff may require and make the necessary arrangements for this to occur;
 - e) nominate a salary packaging contact officer who is able to:
 - ⇒ sign the 'Letter of Offer' to employees to commence salary packaging (at [Appendix C](#)),
 - ⇒ direct employee enquiries to the bureau service provider, and
 - ⇒ sign fully novated leases on behalf of the Agency;
 - f) provide each employee wishing to participate in salary packaging with:
 - ⇒ information on salary packaging in the ACT Public Service, including the *ACT Public Service Salary Packaging Policy and Procedures*;
 - ⇒ details of the Agency's bureau service provider(s), including contact details and how and where to locate appropriate information;
 - ⇒ an *Offer of Salary Packaging/Agreement* ("Letter of Offer") signed by the Agency nominee. This has been reviewed by the Government Solicitor's Office and should be used in the form provided at [Appendix C](#). The letter advises the employee of:
 - the employee's current salary, the maximum percentage of salary which is allowed to be packaged and the minimum "cash" salary they must take;
 - the Menu of benefit items which may be packaged by the employee; and
 - details of the Agency nominated bureau service provider(s).

- g) advise the bureau service provider of the fortnightly pay date from which any salary packaging will commence, after the bureau service provider has advised details of the amount of salary to be withheld (i.e. transferred into the Agency's salary packaging holding account) and the FBT liability (if any);
- h) in the event that an Agency recruits an employee who is currently salary packaging from another ACT Public Service Agency, it is the **receiving** Agency's responsibility (in conjunction with the employee) to:
 - ⇒ advise the employee of his or her eligibility to undertake salary packaging prior to the employee making any decision to transfer; and
 - ⇒ ensure the employee has ceased salary packaging with the losing Agency and assist the employee to re-commence salary packaging. The Agency will need to issue a new Letter of Offer, re-sign any novated lease agreement and re-establish deduction authorities.

11. Employee responsibilities:

11.1 Employees are responsible for:

- a) familiarising themselves with the salary packaging information provided, in particular employees should note which bureau service provider(s) have arrangements in place with the Agency;
- b) all costs associated with the use of the bureau service provider and any FBT liability (if applicable);
- c) obtaining financial advice from a qualified financial adviser (see below for *Financial Adviser* responsibilities):
 - ⇒ employees should note that they may use **any** qualified financial adviser and are **not** confined to those nominated by the bureau service provider;
 - ⇒ it is important to ensure documents are correctly completed as any errors may attract additional administrative fees;
- d) providing the financial adviser with accurate information in order to obtain the best options for their salary package;
 - ⇒ employees will need to take the Letter of Offer with them to their financial adviser as proof that the employer has agreed to allow them to salary package, and the maximum level of salary which is available for packaging; and
- e) reviewing carefully all salary packaging options/reports provided by the financial adviser.

11.2 If the employee chooses to proceed with salary packaging:

- a) the employee (with the assistance of the financial adviser) must complete the bureau service provider *Salary Packaging Information Form* (to commence salary packaging) which will require personal information, payment details, deduction authority and instructions for the benefit items the employee has decided to include;
 - ⇒ the *Salary Packaging Information Form* is available from a financial adviser listed by a nominated bureau service provider, or from the nominated bureau service provider website should the employee wish to use their own financial adviser;
 - ⇒ the financial adviser will lodge the completed and signed *Form* with the bureau service provider; and
- b) where the employee is currently making payroll deductions for benefit items they intend to salary package, such as insurance premiums, or have other payment arrangements in place with a financial institution, the employee must take the appropriate steps to change these arrangements.

- 11.3 If the employee chooses to salary package a fully novated lease motor vehicle, the bureau service provider will contact the employee to arrange an interview with a financier (i.e. bank, finance company, etc.) to negotiate the funding;
- a) the employee is responsible for having the Novated Lease signed by the Agency nominee which allows the arrangement to commence; and
 - b) the employee should negotiate with the bureau service provider regarding details of when they can pick up their leased motor vehicle.
- 11.4 Once the employee's salary package has commenced, the employee is responsible for notifying the bureau service provider of any change in the employee's circumstances, such as:
- a) movement to another Agency (eg through promotion/transfer);
 - ⇒ the employee **must** cease salary packaging when they leave the losing Agency and, if they choose, re-commence salary packaging with the gaining Agency;
 - ⇒ the employee must take with them to the gaining Agency, their personal salary packaging details which will be supplied by the bureau service provider on cessation of salary packaging;
 - ⇒ employee's should note that there may be an additional fee to re-commence salary packaging levied by the bureau service provider.
 - b) changed personal circumstances affecting their salary packaging arrangements;
 - c) leave without pay; and
 - d) termination of employment with the Territory.
- 11.5 Employees are responsible for all costs associated with their salary packaging, including:
- a) salary package payments;
 - b) all administration fees and charges,
 - c) any Fringe Benefits Tax and Goods and Services Tax payable (where applicable);
 - d) any costs associated with obtaining financial advice; and
 - e) any other taxes or charges which Government may impose.

NOTE: *Employees should be aware that bills cannot be paid if the money is not in their salary package account. This means that if the employee purchases/leases a benefit item and there is insufficient funds in the account prior to bills falling due, the bureau service provider will not be able to make any payments and the employee may have to fund the payment out of their "cash" salary component.*

12. Financial Adviser responsibilities:

- 12.1 The Financial Adviser should:
- a) be accredited by a recognised professional association (eg the Financial Planning Association);
 - b) disclose their fees in connection with their services prior to undertaking any work for the employee;
 - c) model all salary packaging options that the employee requires;
 - d) provide the employee with reports on the salary packaging options selected by the employee;
 - e) complete the payment details/instructions for the benefit items the employee has selected;

- f) ensure that the employee's selected salary packaging option complies with the terms and conditions set out in the ACT Public Service "Letter of Offer" and taxation law;
 - g) ensure that all documentation is completed correctly and conforms with this Policy and is signed by the employee; and
 - h) sign and forward the completed *Salary Packaging Information Form*, and any other appropriate documentation, to substantiate the selected benefit items, expenses and a copy of the relevant option report to the bureau service provider on behalf of the employee;
- ⇒ any incomplete documentation will be returned to the financial adviser for attention.

13. Bureau Service Provider responsibilities:

13.1 Bureau service providers are responsible for ensuring that their services are provided in accordance with this Policy, including:

- a) only approved menu items are packaged;
- b) to approved eligible employees;
- c) within the specified level of salary which is available for packaging; and
- d) the services provided through salary packaging are undertaken to ensure the best value for participating employees and the Territory.

13.2 Bureau service providers are responsible to ensure all their documentation conforms to the Australian Tax Office guidelines and rulings, as amended from time to time. In particular, any fully novated lease arrangements must conform to current Tax Determinations or as amended.

13.3 The bureau service providers' major functions are:

- a) timely processing of salary packaging applications and variations;
- b) payment of salary package accounts in accordance with employees' salary packaging arrangements;
- c) provision of timely and accurate information to Agencies and employees;
- d) storage, provision and compliance of information for FBT reporting purposes; and
- e) timely attendance to, and resolution of, Agency and employee enquires relating to employee salary packaging arrangements.

13.4 Once the *Salary Packaging Information Form* (to commence salary packaging) has been forwarded by the financial adviser to the bureau service provider, the bureau service provider will:

- a) (if a fully novated lease is required) contact the employee to arrange an interview with a financier, negotiate the selection of a motor vehicle and finalise arrangements;
- b) transfer the payment details/instructions from the *Form* to the bureau service provider's database;
- c) send a schedule confirming the salary package payment details/instructions to the employee;
- d) make payments either directly to the service provider, or to the employee if the employee has paid the account and requests reimbursement, using the following methods of payment:
 - ⇒ Direct Bank Transfer ("DBT") - for those benefits requiring regular fixed payments (eg on a fortnightly, monthly, quarterly or annual basis); or
 - ⇒ Electronic Funds Transfer ("EFT") - for those benefits which are not paid on a regular basis and/or are of a variable amount; or
 - ⇒ cheque payment, where either DBT or EFT is not available;

- e) undertake to make cheque payments (or reimbursements) within 48 hours of receiving an employee's *Claim Form*, subject to the employee having sufficient package funds available to enable the payment;
- f) provide an administrative service to employees for salary packaging purposes, including a contact point for employee enquiries; and
- g) in the event that an employee, who is currently salary packaging, moves from one ACT Public Service Agency to another Agency:
 - ⇒ cease the employee's salary packaging arrangements upon receiving advice from the employee that they are changing Agencies;
 - ⇒ provide the employee with information in relation to the employee's salary package (eg. novated lease, Letter of Offer and FBT return) within two (2) working days of receiving the request by the employee.

13.5 The bureau service provider will provide the Agency with:

- a) confirmation that the employee has undertaken a financial consultation (unless the Chief Executive or delegate has agreed that such advice is unnecessary);
- b) details of the amount of non-cash salary the employee wishes to include in his or her package and the amount to be withheld for future FBT payments:
 - ⇒ the Agency will advise the bureau service provider of the fortnightly pay date from which the employee's salary packaging deductions will commence;
- c) accurate and timely information and reports on employees' salary packaging transactions and FBT liabilities/returns in accordance with the Agency deed;
 - ⇒ this includes a monthly reconciliation of "holding account" balances against the aggregate of participating employees' available balances; and
- d) reconciliation reports of employees' salary packaging accounts, within five (5) working days of receiving the request by the Agency, where employees terminate their employment with the Territory.

13.6 The bureau service provider will, as required by the Agency or the employee, transfer employee salary packaging information to another bureau service provider.

RESTRICTIONS ON SALARY PACKAGING SPECIFIC MENU ITEMS

A1. Private superannuation contributions

- A1.1 Employees may contribute to a private superannuation fund as part of their salary packaging. *Employees should note that contributions to CSS and PSS **cannot** be salary packaged.*
- A1.2 The additional superannuation contributions must be made to a complying superannuation fund and the following information noted:
- a) additional contributions paid into a private superannuation fund via salary packaging are considered to be “employer sponsored superannuation”;
 - b) these contributions are subject to a contributions tax (currently 15%); and
 - c) a surcharge may also be levied depending on the employee’s Adjusted Taxable Income. The surcharge phases in from a threshold, which is indexed annually or as adjusted by the Australian Taxation Office from time to time.
- A1.3 A variety of complying superannuation funds are offered by Insurance companies, Australian Banks and Fund Managers from which the employee can select. Financial advisers will also be able to advise employees on private superannuation contributions.

A2. Motor Vehicles

A2.1 Lease arrangements:

Employees may include up to a maximum of two motor vehicles as part of their salary package through the following arrangement:

- a) a **fully novated lease** - this is where an employee enters into a standard finance lease agreement with an approved lease company or financier and the vehicle is then novated or assigned to the employer under a deed of novation:
 - ⇒ the employer pays the lease rentals directly to the financier (through the bureau service provider) and the amount of the payment is deducted from the employee’s pre-tax salary as part of the employee’s salary package;
 - ⇒ the vehicle is recognised as an employer-provided vehicle for the purposes of income tax assessment and FBT;
 - ⇒ the vehicle is to be used for purely private purposes, and the employer cannot direct that it be used for any business purpose;
- b) all lease payments and running costs will be deducted from the employee’s *gross salary* together with any FBT and GST liability. FBT liability is based on the **statutory method** (detailed in A2.3) determined by the number of kilometres travelled in the lease year; and
- c) if an employee defaults on the payment of the lease or the employee leaves the employment of the Territory, or receives written notification from the employer that the Territory wishes to withdraw from its obligations under the lease, the deed of novation will be terminated and the lease will revert to the employee along with any associated costs, at no liability to the Territory.

NOTE: *Employees should be aware that they may have to wait a month before picking up a vehicle under a fully Novated Lease arrangement, or pay the first month’s lease payment in advance depending on the individual bureau service provider’s arrangements.*

A2.2 The following conditions apply to fully novated leased motor vehicles:

- a) the vehicle can be any age acceptable to the financier within the rules set by the Australian Taxation Office;
- b) any make and type of vehicle may be leased;
- c) if the vehicle's value exceeds the luxury car threshold amount, as adjusted by the Australian Taxation Office from time to time, it must be fully novated leased as a 'luxury car' under the rules set by the Australian Taxation Office;
- d) the vehicle must be purchased in the Australian Capital Region;
- e) employees and the panel of financial institutions facilitating Novated Leasing **must** use a full Novation Agreement approved by the Australian Taxation Office; and
- f) the employee is responsible for securing a Finance Lease and Comprehensive Insurance.

A2.3 Statutory method for calculating Fringe Benefits Tax is as follows:

- a) the taxable value of a car fringe benefit will be calculated using the statutory method. The appropriate FBT will be calculated and included in the employee's salary package;
- b) this is the most common method used by employers in determining FBT for motor vehicles:
 - ⇒ the taxable value of the car fringe benefit is a percentage of the base value of the vehicle;
 - ⇒ the percentage varies with the total distance travelled by the vehicle during the FBT year (regardless of whether it is business or private travel);
 - ⇒ the greater the distance travelled the lower will be the taxable value and FBT payable;

The statutory percentages for the FBT year are:

Total kilometres travelled during the year	Statutory percentage
Less than 15,000	26%
15,000 to 24,999	20%
25,000 to 40,000	11%
Over 40,000	7%

Taxable value = $(A \times B \times C) / D - E$

where:

- A = the base value of the vehicle
- B = the statutory percentage
- C = the number of days in the FBT year when the vehicle was used or available for private use of the employee
- D = the number of days in the FBT year
- E = the employee contribution, if any, from after tax income

- c) the base value of a motor vehicle is the lease value on the date the vehicle is provided by the employer; and
- d) employees who salary package a luxury car must pay the luxury car tax in accordance with the statutory rules set by the Australian Taxation Office.

NOTE: *Employees should be aware that the FBT payable will vary substantially in accordance with the number of kilometres actually driven during the FBT year (i.e. from 1 April to 31 March).*

- A2.4 Should an employee elect to include under a novated lease, **Own motor vehicle operating expenses** (such as repairs and maintenance, vehicle finance/loan payments, registration, insurance, conversions to enable the vehicle to use non-fossil fuels eg. LPG or natural gas, etc.) in their salary packaging arrangements then the following restrictions apply:
- ⇒ employees must ensure registered and authorised dealerships undertake these arrangements.

A2.5 Portability of novated lease arrangements:

All novated leases are portable across the ACT Public Service provided that no restrictions exist within individual Agency industrial agreements. However, if an employee leaves the ACT Public Service the novated lease will expire immediately and all costs associated with the lease revert to the employee.

A3. Restrictions on other packaged items

- A3.1 Should an employee elect to include **Personal investments obtained through a registered managed trust or fund** in their salary packaging arrangements then the following conditions must be met:

- a) employees cannot purchase shareholdings in any organisation providing direct services to the ACT Government;
- b) employees cannot directly intervene in the share market;
- c) employees are responsible to ensure that conflicts of interest are avoided and that any potential conflicts of interest are declared to their respective Chief Executive; and
- d) the personal investments must be medium to long term investments. Medium to long term investments are defined to be those that, at the time of acquisition, were intended to be held for a period of at least six months.

- A3.2 Employees who elect to include an **Investment loan** in their salary packaging arrangements are responsible for avoiding conflicts of interest.

- A3.3 Employees who elect to salary package **Interest payments on an Investment loan** - a tax deductible item – must:

- a) comply with the conditions set out at A3.2; and
- b) complete an investment loan declaration form (available from the bureau service provider) detailing the type of loan, banking details and sign an agreement to only use the salary packaging funds for the purpose of making 'interest only' payments.

GUIDELINES FOR AGENCIES FOR MANAGING INPUT TAX CREDITS

These guidelines are provided to assist Agencies to implement the *ACT Public Service Salary Packaging Policy and Procedures* in relation to Goods and Services Input Tax Credits. These guidelines take effect on and from 1 July 2000.

As a result of the introduction of the GST on 1 July 2000, some salary-packaging arrangements now attract the GST. The GST applies to salary packaging in the same way as it applies to all other goods and services. For example, if an employee novate leases a car and the lease payments were \$1000 per month on 1 June 2000, these payments may have risen to \$1100 per month from 1 July 2000 as a result of the introduction of the GST. The GST component is payable by the employee.

Where funds are transferred from the packaging account to cover acquisitions as part of the salary package, a Goods and Services Input Tax Credit entitlement in respect of taxable acquisitions will be available to the Territory. As a consequence of the entitlement to an Input Tax Credit, a higher gross up factor (2.1292) will need to be used in determining the Fringe Benefit Tax ("FBT") liability for the Territory.

This means that employees will also need to increase the funding of their salary packaging contributions to meet this increased FBT liability.

EXAMPLE:

Lease costs - \$1100 per month (including \$100 GST)
 x 2.1292 (FBT with some Business Use)
 = \$2342.12 (FBT value)
 x 48.5%
 = \$1136 FBT payable by employee (\$2236 in total)

Total cost to employee package = lease costs (after claiming Input Tax Credit of \$100) plus FBT
 = \$1100 - \$100 + \$1136 = \$2136

As shown in the example, an Input Tax Credit is claimed by the Agency at 1/11th of the benefit value including GST. In the above example that means a benefit of \$100. **The *ACT Public Service Salary Packaging Policy and Procedures* requires that Input Tax Credits be re-credited to the employee either, through their salary packaging account, or through the payroll system as salaries and wages.**

Employees will pay the FBT, and receive the Input Tax Credits claimed by the Agency where the higher gross up rate has been used.

The bureau service providers will calculate the higher rate of FBT (i.e. 2.1292) on each salary-packaged item for each individual employee's salary packaging account. The bureau service provider will then issue the Agency with a GST invoice and an Input Tax Credit report for any items that may attract Input Tax Credits.

When Input Tax Credits are received by Agencies, and the credit is in relation to an employee salary packaged benefit item, the refund should be either, credited to the bureau service provider who will then redirect the amount to each affected employee's salary packaging account, or refunded to the employee through the payroll system as salaries and wages.

LETTER OF OFFER

(Agency Letterhead)

[INSERT: EMPLOYEE’S NAME AND ADDRESS]

Dear

Offer of Salary Packaging

I would like to offer you the option to undertake Salary Packaging on the terms and conditions set out in the attached Agreement and in accordance with the *ACT Public Service Salary Packaging Policy and Procedures* (“the Policy”).

Please read the Agreement carefully. If you then decide to proceed, you must obtain financial advice before you can formally commence salary packaging, unless I agree that you may proceed without obtaining financial advice. You are free to use any qualified financial adviser or select one from among those listed by your nominated bureau service provider.

If you agree to accept the terms of the Agreement, please sign and date the Agreement on **page 5** and return it to [INSERT: **AGENCY CONTACT NAME AND POSTAL ADDRESS**] and hand a copy of the Agreement to your financial adviser. The financial adviser will fill out the relevant forms and 'sign off', after which the financial adviser will forward the signed documents to the bureau service provider who will contact you in order to formally commence your salary packaging.

If you have any queries about the administration of your salary package, please contact the relevant bureau service provider. Contact details are listed on the attached Schedule 2.

Set out below are your current salary, the available gross salary you are able to salary package, and the residual “cash” salary.

EMPLOYEE NAME:		
AGS NUMBER:		
AGENCY NAME:		
TELEPHONE:	FAX:	
CLASSIFICATION: (Please circle)		
	Executive	Non-Executive
CURRENT SALARY: (1)	Available Gross Salary able to be Salary Packaged: (2)	Residual “Cash” Salary: (1) – (2)
\$	\$	\$

Salary Packaging Agreement

This Agreement is Between:

AUSTRALIAN CAPITAL TERRITORY a body politic established under the *Australian Capital Territory (Self-Government) Act 1988* ("the Territory") represented by [INSERT: NAME OF AGENCY] ("the employer")

And:

[INSERT: NAME OF EMPLOYEE] ("the employee").

The parties agree as follows:

A. EMPLOYEE SALARY

- i) For the purposes of salary packaging, salary is defined as the employee's gross pre-tax salary at the date of the commencement of the "package year" **excluding** overtime, higher duties or other allowances or entitlements, unless these have been converted to an annualised salary. Any pay increases received during the "package year" must be taken as "cash" salary.
- ii) The employee may elect to "package" up to 100% of their available gross salary, or in the case of employees working in Public Benevolent Institutions, a maximum of 100% of an employee's available gross salary provided that the benefit items which normally incur Fringe Benefits Tax ("FBT") do not incur more than \$17,000 grossed up taxable value per "FBT year", unless the responsible Chief Executive (or his or her delegate) gives prior written permission for the named employee's entitlements to exceed \$17,000 grossed up taxable value in any "FBT year".
- iii) The employer will pay any remaining salary as "cash" salary fortnightly.
- iv) The employee may elect to include one or more of the package items listed on the attached Schedule 1 in their salary package, provided the total value of the items to be packaged does not exceed the amount calculated in accordance with point (ii) above.
- v) The employee's participation in salary packaging will be at no cost to the employer.
- vi) The employee must pay FBT or reimburse the employer the amount of any liability for any tax, charges, duty or other payments (including bureau service provider administration fees) payable by the employer which arise out of, or are in any way connected with, this Agreement. This includes any tax, charges, duty or other payment which becomes payable as the result of the amendment, introduction or coming into effect of any legislation. The employer may deduct this amount from any remuneration payable to the employee.

B. DURATION OF THE AGREEMENT

- i) This Agreement will commence on the first available pay period after the date it is signed and after the processing of the necessary documentation by both parties.
- ii) The Agreement will remain in force for a period of 12 months (the "package year") providing the employee remains an "eligible employee".

C. FINANCIAL ADVICE

- i) The employee **must** obtain and provide evidence of financial advice about the structure of their proposed salary package **before** they can participate in salary packaging, unless the Chief Executive (or his or her delegate) agrees that the employee may proceed without obtaining financial advice. This advice **must** be obtained from a suitably qualified and independent financial adviser accredited by a recognised professional association (such as the Financial Planning Association).
- ii) The employee must direct any queries about salary packaging and associated issues such as superannuation, compensation, taxation and administration to an accredited financial adviser or the nominated bureau service provider for advice and clarification.

D. REVIEW OF THE SALARY PACKAGE

- i) Towards the end of each “package year” an employee may review the components of his or her salary package and vary their package items for the next “package year”. If an employee decides to vary his or her salary package it is recommended, before doing so, that the employee seek advice from a qualified and independent financial adviser.
- ii) The employee may cease, or seek a review of the components of, his or her salary package before the end of the “package year” where the employer is satisfied that exceptional circumstances exist. Exceptional circumstances may include:
 - separation, divorce or death of a domestic partner;
 - ill health;
 - extended leave;
 - substantial change to the employee’s salary; and
 - legislative change that impacts on salary packaging.
- iii) The employee is entitled to have the components of his or her salary package reviewed if the employer’s FBT status changes.

E. ADMINISTRATION

- i) A panel of bureau service providers has been appointed by the Territory to administer salary packaging arrangements in consultation with the employer. The Chief Executive has nominated the bureau service provider(s) listed on the attached Schedule 2 to provide these services to eligible employees.
- ii) If the employee decides to proceed, the employee must nominate one of these bureau service providers to administer their salary package. The bureau service providers will charge an agreed fee for administering selected package payments made under this Agreement.
- iii) The employer will hold employee salary packaged monies in a salary packaging specific bank account (“the Account”) established with the Territory’s nominated Bank. The employee acknowledges that from the time at which salary packaged monies are paid into the Account, all disbursements/drawdowns (or the omission of disbursements/drawdowns) from the Account are the responsibility of the bureau service provider, and **not** the Territory. The employee forever releases the Territory from any responsibility relating to disbursements/drawdowns (or the omission of disbursements/drawdowns) from the Account.
- iv) The employee must ensure that sufficient funds are available (in the Account) to enable all commitments, including FBT liability, to be met.
- v) The bureau service provider will provide a reconciliation of FBT owed by the employee (to both the employee and employer) at the end of the “FBT year” (the 12-month period ending 31 March) when any outstanding FBT **must** be paid in full by the employee.
- vi) A reconciliation of the employee’s salary package will take place at the end of the “package year”. Any balance, if not reimbursed, will be rolled over to the next “package year”.

F. DISCLAIMER

- i) This Agreement and associated publications, has been prepared without consideration of the particular investment objectives, financial situation and needs of recipients. In all cases, recipients should conduct their own investigation and analysis of the information contained in this publication. No recipient should act on the basis of any matter contained in this publication without considering and, if necessary, taking appropriate legal, financial or other professional advice upon the recipient’s own particular circumstances. Each employee who wishes to take advantage of salary packaging is required to obtain financial advice, unless the Chief Executive (or his or her delegate) agrees that the employee may proceed without obtaining financial advice.
- ii) The actions of the employer, and the salary packaging administration provider, in making payments to a third party for employment benefits in accordance with an employee’s salary

package do not in any way imply a transfer of liability to the Territory, or the provider, in relation to any agreement, understanding or obligation between the employee and the third party.

- iii) The Australian Capital Territory Public Service (“ACTPS”), each of its employees and every person involved in the preparation of this publication expressly disclaims all liability for any loss or damage of whatsoever kind (whether foreseeable or not) which may arise from any person acting or relying on any statements contained in this publication, and notwithstanding any negligence, default or lack of care.
- iv) This disclaimer does not limit or alter those statutory rights which cannot be excluded.

G. CONFIDENTIALITY AND ACKNOWLEDGMENT

- i) The terms of this Agreement remain confidential between the employee and the employer.
- ii) The terms and conditions agreed between the employee and the employer relate only to the employee’s salary package.
- iii) The employer is **not** liable for taxation or any other liabilities, judgements, penalties or outcomes suffered or incurred by the employee resulting from entering into this Agreement.
- iv) The employee confirms that the package items selected for their salary package are legitimate expense items and that funds availed of by the employee under the salary packaging arrangements will only be used to pay these expenses.
- v) The employee confirms that Australian and Territory Government provided benefits (such as social security payments) will **not** be accessed by the employee, where entitlement to access these benefits has accrued solely through the reduction in gross salary by the use of salary packaging. In addition, employees shall **not** use salary packaging to reduce gross salary in an attempt to reduce child support or other legally binding payments.
- vi) If the employee ceases employment with the employer, this Agreement will lapse and any outstanding FBT liabilities will be payable on termination. The employee also undertakes to advise the bureau service provider **immediately** if they leave employment with the employer.
- vii) If the employee transfers to another Territory Agency, the employee **must** notify the bureau service provider of their changed status and cease salary packaging with the losing Agency, and, if the employee wishes to continue packaging, recommence with the gaining Agency.
- viii) If an employee defaults on the payment of a lease under salary packaging arrangements, leaves the employment of the employer, or receives written notification from the employer that the Territory wishes to withdraw from its obligations under the lease, the lease reverts to the employee along with any associated costs at **no** liability to the Territory.
- ix) The employee is under no obligation to participate in salary packaging. The employee may elect to cease salary packaging at the end of any “package year” or earlier if exceptional circumstances prevail (refer [Section D](#)).
- x) This Agreement is in substitution for all previous salary packaging Agreements between the Territory and the employee.

H. INDEMNITY

- i) In consideration of the Territory agreeing to enable the employee to undertake salary packaging arrangements, the employee indemnifies the Territory against any liability, loss or other claim which a bureau service provider, Rhodium Asset Solutions, the Australian Taxation Office or any other person (collectively referred to as “third parties”) may make against the Territory with respect to any liability arising from the employee’s salary packaging arrangements.
- ii) The amounts of all claims, damage, costs and expenses which may be paid, suffered or incurred by the Territory in respect of the employee’s salary packaging arrangements, will be made good at the employee’s expense and may be deducted from any salary payable by the Territory to the employee or other moneys due or becoming due to the employee.

I,, understand and accept the offer of salary packaging by the employer on the terms and conditions detailed in this Agreement.

Signature:

Date:

SIGNED for and on behalf of the)
AUSTRALIAN CAPITAL TERRITORY)
by)

PRINT NAME

.....
Signature of Territory Delegate

Date:

MENU ITEMS AVAILABLE FOR SALARY PACKAGING

The Commissioner for Public Administration has agreed the following items may be included in salary packaging arrangements for ACT Public Service employees. It should be noted that this list may be amended from time to time by the Commissioner without prior notice:

CATEGORY A - Otherwise Deductible Items (i.e. benefits that would otherwise be tax deductible)

- Disability/Income protection insurance premiums;
- Financial counselling fees;
- Home office expenses (such as electricity, telephone, professional library, etc.);
- Interest payments on an Investment loan - *Refer to paragraph A3.3*;
- Membership fees and subscriptions to professional associations (i.e. AIM, AMA, unions, etc.);
- Mobile phones for predominantly business use;
- Self education expenses related to the employee's current employment activities;
- Work-related travel expenses (not including travel to and from work).

CATEGORY B - Concessionally Taxed and Exempt Items

Exempt items (i.e. benefits that are exempt from FBT)

- Child care fees - '**in house**' (i.e. employer provided, if available);
- Laptop computers for predominantly business use (i.e. notebook).

Concessionally taxed items (i.e. benefits where the full value of the benefit is not subject to FBT)

- Contributions to a private superannuation fund (contributions made by the employer are exempt from FBT and income tax, but are subject to a contributions tax) - *Refer to paragraph A1.1 - A1.3*;
- Luxury motor vehicle (for private use) by way of a fully novated lease (subject to a bureau service provider being able to administer the process) - *Refer to paragraphs A2.1 – A2.5*;
- Motor vehicle (for private use) through a fully novated lease - *Refer to paragraphs A2.1 – A2.5*;
- Motor vehicles other than cars (for private use) by way of a fully novated lease;
- Replacement vehicle - where an Executive chooses to 'cash-out' the employer-provided motor vehicle the replacement vehicle may be taken as a novated lease through salary packaging;
- Upgrade of an Executive's employer-provided motor vehicle - where the Chief Executive agrees to allow payments covering the difference between the lease payments to be made from the Executive's pre-tax salary through approved salary packaging arrangements.

CATEGORY C - Full FBT Items (i.e. benefits subject to the full rate of FBT)

- Aged and Disability care payments;
- Child care fees - '**off site**' arrangements;
- Insurance premiums, other than income protection (eg. trauma/life, motor vehicle, home/contents);
- Investment loan (eg. real estate property for non-commercial purposes) - *Refer to paragraph A3.2*;
- Own home mortgage (or private home rental) payments;
- Own motor vehicle operating expenses under a novated lease (eg. repairs and maintenance, vehicle finance/loan payments, registration, insurance, conversions to enable the use of non-fossil fuels) - *Refer to paragraph A2.4*;
- Personal investments through a registered managed trust or fund - *Refer to paragraph A3.1*;
- Private health insurance premiums;
- Private travel (eg. personal holidays, home to work travel, car parking, bus fares, other modes of transport);
- School and higher education fees (including HECS);
- Utilities charges (eg. gas, electricity, telephone, water, rates, etc.).

Note: The above categories are in accordance with taxation rules at the date of publication.

BUREAU SERVICE PROVIDER DETAILS**McMILLAN SHAKESPEARE AUSTRALIA Pty Ltd**

<i>Contact:</i>	Customer Care Centre	Head Office
<i>Phone:</i>	1300 735 363	Level 4, 321 Exhibition Street
<i>Facsimile:</i>	(03) 9635 0011	MELBOURNE VIC 3001
<i>Email:</i>	info@mcms.com.au	

PARADIGM TOTAL SALARY MANAGEMENT Pty Ltd

<i>Contact:</i>	Client Services Team	ACT Service Office
<i>Phone:</i>	to be advised	Level 1, 9-11 Napier Street
<i>Facsimile:</i>	(08) 9323 0899	DEAKIN ACT 2600
<i>Email:</i>	to be advised	

SALARY PACKAGING SERVICES AUSTRALIA Pty Ltd

<i>Contact:</i>	Customer Service Centre	ACT Manager
<i>Phone:</i>	1300 651 117	Level 2, Derwent House
<i>Facsimile:</i>	to be advised	28 University Avenue
<i>Email:</i>	to be advised	CIVIC ACT 2601

SMARTSALARY Pty Ltd

<i>Contact:</i>	Client Services Team	Head Office
<i>Phone:</i>	9299 9111	Level 1, 120 Sussex Street
<i>Facsimile:</i>	9299 4669	SYDNEY NSW 2000
<i>Email:</i>	ACT@smartsalary.com.au	