

# The Financial Paracetamol

Your Guide to Financial Health

PREVENTION • SYMPTOMS • CAUSES • TREATMENT

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## Salary Package Your Way To a Higher Disposable Income

### Salary Packaging Explained

Salary packaging is the combination of your salary, superannuation and fringe benefits to increase your disposable income. This is achieved by 'sacrificing' part of your salary to enable a payment of a fringe benefit or additional superannuation contribution.

Fringe benefits are any benefit paid for by the employer on behalf of the employee that is not included in income. Fringe Benefits may be broken up into the following 4 categories:

- 1. Fringe Benefits Tax (FBT) Exempt Items – No FBT**  
Mobile phone, laptop, briefcase, work related expenditure.
- 2. Concessionally Taxed Benefits – FBT on partial value of the benefit**  
Loan benefits, motor vehicle benefits, novated lease.
- 3. Otherwise Deductible Benefits – No FBT**  
Professional memberships, income protection insurance, financial advice fees, self education expenses (work related).
- 4. Fringe Benefits - 100% FBT**  
Holidays, golf memberships, home mortgage repayments, school fees.

Fringe benefits are taxed at the rate of 48.5%. Reportable fringe benefits may effect the calculation of any of the following:

Superannuation Surcharge, Family Tax Benefit, Superannuation rebate for personal and spouse contributions, Medicare Levy and Medicare Levy Surcharge, HECS.

### So what is common to Package?

The most commonly used package items are Superannuation and Motor Vehicles.

Superannuation is one of the most tax effective long term saving and investment strategies. Superannuation contributions are taxed at 15% plus superannuation surcharge if your income is greater than \$99,710 for the year ended 30 June 2005. This clearly is less than the top marginal rate of tax of 48.5%. This is illustrated in the following example:

### Superannuation v Salary

*Salary greater than \$70,000*

	Salary	Superannuation
Discretionary Income	10,000	10,000
Tax	(4,850)	(1,500)
After Tax	5,150	8,500
Investment rate of return	10%	10%
Income	515	850
Tax	(250)	(128)
After Tax	265	723
Net Funds	5,415	9,223
<b>Difference – Year 1</b>	<b>3,807</b>	<b>38.1%</b>

**“as your taxable income reduces to a lower tax rate, salary packaging will become less effective”**

**To find out more about the benefits of Salary Packaging, call us or talk with a qualified advisor.**



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### Don't Let Christmas Festivities Give You A Tax Time Hangover!

#### Plan your Christmas shopping and partying now to avoid a headache at Fringe Benefits Tax (FBT) time and Tax time.

##### Provided to clients

Entertainment provided to clients by way of a Christmas party or being taken out for dinner, is not subject to FBT but is also non-deductible.

Small, infrequent gifts such as Christmas gifts are also not subject to FBT but are tax deductible (i.e. Leg Hams).

##### Provided to Employees

Christmas party held on the employer's premises

- A function (such as a Christmas party) held on the employer's premises is not subject to FBT and is not tax deductible.

Christmas party held off the employer's premises

- A function (such as a Christmas party) held off the employer's premises is subject to FBT if it is more than \$100pp (or greater than \$100 for an employee and spouse combined) it is also tax deductible.
- If the benefit is less than \$100pp (or less than \$100 for an employee and spouse combined) it is exempt from FBT but is non-deductible.

Christmas gifts to employees

- Christmas gifts (gift vouchers, perfume, hampers etc) to employees that are less than \$100pp are exempt from FBT and tax deductible.
- Christmas gifts to employees that are greater than \$100pp are subject to FBT and are tax deductible.

##### Christmas Cash Bonuses

Always consider the tax consequences of paying cash bonuses to staff at Christmas time. Not factoring in the appropriate amount of tax to withhold may result in a tax bill to your employee come year end, not quite the present they were after!

### Choosing Your Own Super Fund

Commencing 1 July 2005 employers must provide their employees with a choice of superannuation fund for compulsory superannuation contributions.

Employers will be required to:

- Provide employees with choice of superannuation fund (unless the employees are covered by state awards or have entered into certified agreements or Australian Workplace Agreements that specify the superannuation fund);
- Provide employees with a Standard Choice form (developed by ATO);
- Continue making contributions to the same fund as they do now if an employee does not choose a Fund provided that the current fund offers life insurance cover.

Employers do not have to accept a choice election from an employee if the employee has previously chosen a fund within the past 12 months, provides insufficient written evidence, or makes an ineligible choice of fund. To be eligible, the chosen fund must be a complying superannuation fund, scheme, or a Retirement Savings Account (RSA).

From 1 July 2005, employees will:

- Have a choice as to which superannuation fund their compulsory superannuation contributions are paid to;
- Be required to provide their employer with certain information about their chosen fund and written evidence that their chosen fund will accept their employer's contribution.

**As with all investment decisions employees should seek independent advice before changing their superannuation provider and consider all aspects of the decision including potential exit fees and charges.**



## Economy Buckles Up For Soft Landing!!

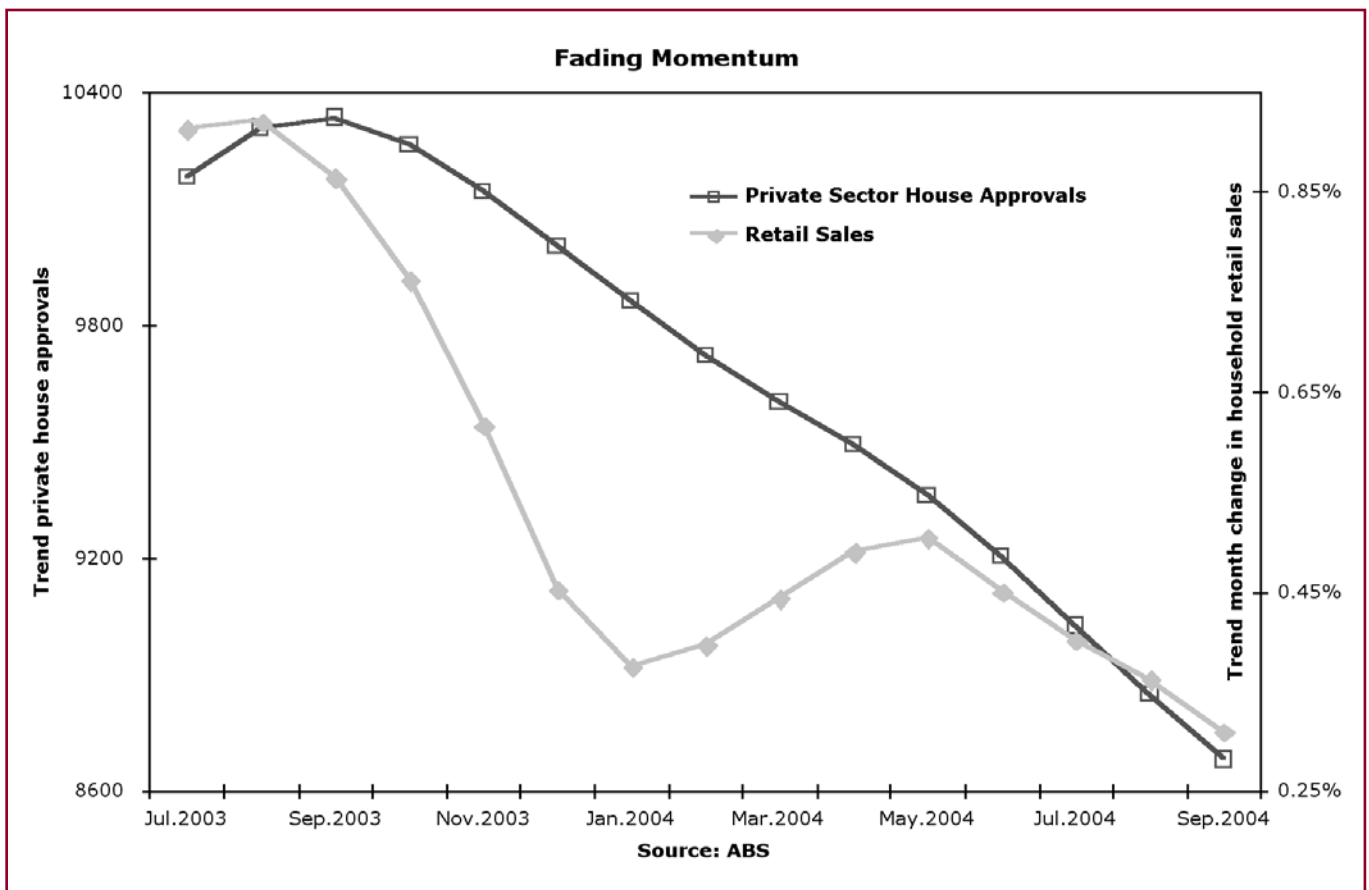
During the past 12 months nearly every headline warned of a booming economy and the necessity for higher interest rates. It was widely considered that once the Federal election was out of the way that it was only a matter of time before the Reserve Bank of Australia (RBA) would swiftly raise rates to counter this economic growth.

However, November's RBA meeting has once again seen them leave interest rates unchanged.

### Q. What is driving the RBA's decision??

**A. The economy has actually been slowing all year and the latest batch of economic data reveals it is continuing to do so. The main weakness is coming from the building sector and retail sales, which were the two sectors that carried the economy over the past 5 years.**

The RBA now acknowledge publicly that we have just come through an inflation problem which few others have recognised: rising housing prices was inflation. More importantly they now agree that with that big inflation story (house prices) unwinding there is no need for any more rate rises.



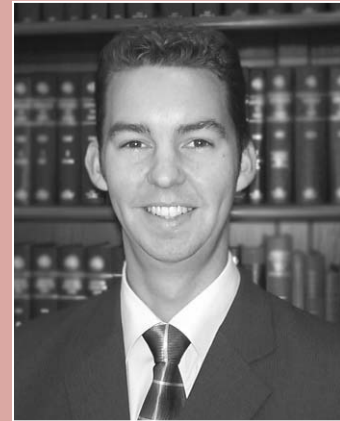
**Fortunately, the RBA has not raised rates during this time otherwise the effect could have been to slow the economy to a standstill.**

**While ever the statistics point to fading momentum as illustrated above, the RBA will be reluctant to raise rates, as planning for a soft landing is their desired result.**



**Staff Profile...**

Jarrold Bramble has been admitted as a Partner of Cutcher & Neale after 6 years with the firm. Jarrold has been an integral part of the development of the practice and in particular the Business Services Division and the expansion of the Professional Sportsperson Division. He brings to the Partnership extensive experience in business development, financial analysis and corporate restructuring. Jarrold is an accomplished presenter on Salary Packaging and Practice Structuring for Medical Practices and has presented at the Australian Association of Practice Managers Symposium (AAPM) and has provided his expert comment for Medical industry magazine, Money in Practice.



**Did You Know?**

Reasonable travel allowance guidelines for the 2005 Financial Year can be found on the Australian Taxation Office website ([www.ato.gov.au](http://www.ato.gov.au)) in their legal database under TD 2004/19.

Just a reminder of the substantiation requirements outlined by TR 2004/6. These cover work-related travel allowance expenses covered by the allowance where the taxpayer is required to sleep away from home when travelling for work.

Travel allowance received and:	Domestic Travel		Overseas Travel	
	Written Evidence	Travel Diary	Written Evidence	Travel Diary
The amount claimed does not exceed the reasonable allowance amount				
– travel less than 6 nights in a row	No	No	No	No
– travel 6 or more nights in a row	No	No	No	Yes
The amount claimed exceeds the reasonable allowance amount				
– travel less than 6 nights in a row	Yes – for the whole claim	No	Yes	No
– travel 6 or more nights in a row	Yes – for the whole claim	Yes	Yes	Yes

**Tell Us More...**

Is there something you would like us to write about? We are always on the lookout for new article ideas and welcome your suggestions for future newsletters. Email your suggestions to [financialparacetamol@cutcher.com.au](mailto:financialparacetamol@cutcher.com.au)

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