

2013 – 2014 Federal Budget Update For Not-For-Profits

On 15 May 2013 the Federal Budget was released.

This newsletter highlights how the Federal Budget will impact organisations in the Australian Not-For-Profit sector.

Increase in Medicare Levy to 2.00% and the Impact on FBT & Salary Packaging

It has been widely publicised there is to be an increase to the Medicare Levy by 0.50% from 1.50% to 2.00% from 1 July 2014.

What this means is that there will be a subsequent change to the Fringe Benefits Tax (FBT) rate which will move from 46.50% to 47.00%.

There are important flow on effects to salary packaging arrangements in the Not-For-Profit sector as a result of this change from 1 April 2014 (i.e. applying to the 2014 – 2015 FBT year).

As a result of the FBT rate changing there will be new 'Gross Up' rates for calculating FBT liabilities and Reportable Fringe Benefit Amounts (RFBA's).

The following table outlines the current and the new Gross Up Rates as a result of this change.

Gross Up Factor Changes		
	FBT YEAR	
	2013-14	2014-15
Type 1 Benefits Gross Up Factor	2.0647	2.0802
Type 2 Benefits Gross Up Factor	1.8692	1.8868
RFBA Gross Up Factor	1.8692	1.8868

In simple terms, this means that employees of Public Benevolent Institution's (PBI's), Health Promotion Charities (HPC's) and FBT Rebateable organisations will not be able to salary package as much each year whilst staying under the \$30,000 Grossed Up Fringe Benefits cap.

The new annual fringe benefit dollar limits based on whether an employee is salary packaging Type 1 ('GST Fringe Benefits') or Type 2 ('GST Free Fringe Benefits') is outlined below.

Annual Fringe Benefit Taxable Value Limits		
	FBT YEAR	
	2013-14	2014-15
Annual Type 1 Benefits Limit	\$14,529.95	\$14,421.69
Annual Type 2 Benefits Limit	\$16,049.64	\$15,899.93

This means employers prior to 1 April 2014 will need to change the weekly, fortnightly or monthly deduction amounts for employees who salary package from 1 April 2014.

New maximum deduction amounts (based on varying payroll frequencies and not mixing benefit types) are outlined below:

Fringe Benefit Deduction Limits - Type 2 Benefits			Fringe Benefit Deduction Limits - Type 1 Benefits		
	FBT YEAR			FBT YEAR	
	2013-14	2014-15		2013-14	2014-15
Weekly	\$308.64	\$305.76	Weekly	\$279.42	\$277.34
Fortnightly	\$617.29	\$611.53	Fortnightly	\$558.84	\$554.68
Monthly	\$1,337.47	\$1,324.99	Monthly	\$1,210.83	\$1,201.81

The change to the Medicare Levy rate and the subsequent change to the FBT tax rate actually means that salary packaging is more valuable to employees despite the fact the total dollar value they can salary package reduces by up to \$149.71 p.a.

The following table compares (at varying income levels) salary packaging savings for employees salary sacrificing the current maximum amount of \$16,049 in the 2013-14 FBT and the maximum amount of \$15,899 in the 2014-15 FBT year.

Salary Packaging Tax Savings Per Annum Compared To Not Packaging*			
Income	FBT YEAR		Increase
	2013-14	2014-15	
\$30,000	\$2,692	\$2,842	\$150
\$40,000	\$3,713	\$3,870	\$157
\$50,000	\$5,045	\$5,094	\$49
\$60,000	\$5,457	\$5,485	\$29
\$70,000	\$5,457	\$5,485	\$29
\$80,000	\$5,457	\$5,485	\$29
\$90,000	\$5,907	\$5,935	\$29
\$100,000	\$6,179	\$6,201	\$22
\$120,000	\$6,179	\$6,201	\$22

*Calculations do not account for tax rebates or tax offsets individual employees may be entitled to.

The small increase in tax saving arises as a result of the interaction between the increased Medicare Levy and salary packaging arrangements.

An additional effect of the FBT rate change is that employees who are currently salary packaging will see a reduction in their total take home pay when compared to their current arrangements.

The following table models the impact on an employee's take home pay who currently salary packages the maximum \$16,049 of Type 2 Fringe Benefits in the 2013 – 2014 FBT Year into their mortgage. This same employee will only be able to salary package and save tax on up to \$15,899 worth of mortgage payments in the 2014 – 2015 FBT year, but will still need to pay additional mortgage payments of \$150 from their 'after tax' salary to ensure their mortgage payments continue to be paid at the same rate.

Taking into account their tax savings and the increased Medicare Levy payments (whilst also making sure the mortgage is paid up to the same value) the employee's take home after tax pay changes as follows:

Net Annual Salary After Tax and After Equivalent Salary Packaging Benefits Are Fully Paid (from either Before or After Tax Income)*			
Income	FBT YEAR		Net Pay Decrease
	2013-14	2014-15	
\$30,000	\$13,951	\$13,951	\$0
\$40,000	\$22,517	\$22,474	-\$43
\$50,000	\$30,449	\$30,248	-\$201
\$60,000	\$37,461	\$37,190	-\$271
\$70,000	\$44,061	\$43,740	-\$321
\$80,000	\$50,661	\$50,290	-\$371
\$90,000	\$57,261	\$56,840	-\$421
\$100,000	\$63,683	\$63,205	-\$478
\$120,000	\$69,833	\$69,305	-\$528

*Calculations do not account for tax rebates or tax offsets individual employees may be entitled to.

So what does this really mean?

In summary the change to the Medicare Levy rate will result in administrative changes for Not-For-Profit organisations from 1 April 2014.

All salary packaging arrangements will need to be re-evaluated with employees (before 1 April 2014) and weekly / fortnightly / monthly payroll deductions will need to be adjusted to account for the change in the salary packaging gross up rates.

Employers who currently pay FBT on employee benefits will see an increase in the amount of FBT that needs to be paid from 1 April 2014. This will impact on all organisations who are FBT rebateable and those organisations who (for example) provide motor vehicle benefits that result in breaches in the concessional caps.

Employees will see a total reduction in their after-tax positions as a result of the Medicare Levy increase from 1 July 2014 and salary packaging savings from 1 April 2014 will actually increase as a result of the changes.

Other Salary Packaging Changes

The previously outlined changes are a result of the increase in the Medicare Levy rate.

There were no specific FBT related announcements for the Not-For-Profit and Charitable sector.

This means the \$30,000 Grossed Up Cap remains unchanged and Meal Entertainment and Entertainment Facility Leasing Benefits continue to be available to employees with no changes.

Better Targeting of not-for-profit tax concessions

Announced in the 2014 Federal Budget were a number of changes to the previously announced 2011-12 Budget measure '*better targeting of not-for-profit tax concessions*', more affectionately known as UBIT.

The announced changes are:

- A \$250,000 small scale threshold of annual accounting revenue. Relevant activities under this threshold will be exempt from income tax under the measure.
- For activities that had commenced prior to 7.30pm 10 May 2011, the transitional period will end on 1 July 2015 and these activities will be taxable from that point forward.
- For activities that commenced after 7.30pm 10 May 2011, the measure will commence on 1 July 2014.

The announcement has only dealt with income tax implications and the ongoing implications for GST and FBT concessions remains unclear, even for small scale activities. The Budget papers indicate further consultation will occur in relation to the measure.

Charity Definition

The Government also announced a deferred start date for the proposed definition of charity. The new date of effect will be 1 January 2014 (previously it was 1 July 2013) and this will allow additional time for the legislative process and guidance materials to be produced.

Who is the Charities Tax Advisory Service?

The CTAS Group of companies provide a range of tax, administration, salary packaging and fleet services to the not-for-profit Sector in Australia.

CTAS clients range from small not-for-profit organisations with only a few staff to Australian organisations with 1,000's of staff. Our clients operate in a number of subsectors and include employment agencies, social welfare organisations, churches, disability service providers, migrant centres, childcare providers, health promotion charities and drug & alcohol rehabilitation services.

If you have any questions please feel free to contact our office on 1300 737 061 and do not hesitate to forward this update to any other organisation that you think may benefit from this information.

The services of the group are summarised below:



Phone: 1300 737 061 or
Email: info@ctas.net.au

CTAS provides tax and accounting services to Not-For-Profit organisations in the following areas:

- Assistance with Income Tax Endorsement and ACNC Registration
- Advice on gifts / tax deductibility, gift funds & fundraising
- GST Compliance and system reviews specifically designed for Charities
- FBT Compliance and Consulting (especially advice for organisations looking to optimise their concessional cap limits) & the completion of FBT Returns
- Assistance with basic and complex tax compliance matters
- Assistance to organisations undergoing an ATO compliance audit
- Training seminars in tax, salary packaging and superannuation for the not-for-profit sector



**Chartered
Accountants**



Phone: 1300 737 061 or
Email: info@communitysalarypackaging.com.au

Community Salary Packaging offers salary packaging services designed for the not-for-profit sector in Australia. There are two main programs run by Community Salary Packaging including:

- A Fully Outsourced Salary Packaging Program
- The Community Salary Packaging Card Program



Phone: 1300 537 785
Email: info@simplefleet.com.au

Simple Fleet Solutions works closely with Community Salary Packaging and offers fleet solutions to organisations in the not-for-profit sector in Australia to assist with the management of their motor vehicle fleets (in the context of their salary packaging programs).

Simple Fleet Solutions provides a variety of fleet services including online fleet management software, discounted fuel card programs with Shell & Caltex, motor vehicle financing options including fully maintained novated leasing and operating leases, vehicle procurement & FBT compliance services including an Operating Cost Logbook Processing program.