



# Business Payroll & Salary Packaging Guide

## Update 1 2019/2020

# Preface

This Business Payroll and Salary Packaging Guide, prepared by Business SA, addresses the practical issues that businesses need to apply in implementing their payroll systems on a day-to-day basis. The aim of the Guide is to provide users with an easy-to-use reference manual to enable the effective and accurate processing of payroll in their business environment. This Guide is a subscription service, with quarterly updates to the Guide to reflect legislative or relevant changes.

## **Business SA is here to help**

Running a business can be exciting, but there are many complex rules and regulations you need to be mindful of when it comes to workplace relations, workers compensation and work health and safety.

Our **Business Advisory Services** can provide you with all the support you need to ensure your business not only complies with legislation but is the best it can be.

As a Business SA member, it makes sense to speak with our experts who can simplify and explain exactly what you need to do to protect your business. Our Business Advisory Services includes the Business Advice Hotline, Consultancy Services, Business Bookshop, Entrepreneurs' Programme and the Healthy Workers Across Industry Program.

### **Business Advice Hotline**

Our [Business Advice Hotline](#) is a members-only free and unlimited service. Our highly-experienced Workplace Advisors are available to help solve your workplace issues – fast. Contact us on (08) 8300 0000 (and select option 1)

### **Consultancy Services**

No problem is too big, or too small and Business Advisory Services can provide you with a highly-tailored, practical and very affordable range of workplace relations, workers compensation and WHS consultancy services. Our consultants are experts in their fields and have assisted South Australian businesses to navigate complicated situations with positive outcomes. [Click here](#) for more information or to contact us.

### **Business Bookshop**

If you want to arm your business with essential workplace resources, check out our [Business Bookshop](#), which has an invaluable and comprehensive range of publications which should be an essential part of your business operations. Why reinvent the wheel when it's all here for you.

### **Entrepreneurs' Programme**

If you are looking to access independent advice and support to grow your business, we have a team of highly experienced Business Advisers, who can provide tailored support and advice to help improve your business management capability and opportunities for growth. We are delivering these services for free in partnership with the Federal Government to assist with delivering the [Entrepreneurs' Programme](#).

Should you require further information about any of the services Business SA has available, call 08 8300 0000 or visit the website at: [www.business-sa.com](http://www.business-sa.com).

## **Professional Advice**

The content of this Business Payroll and Salary Packaging Guide is for general information only and is not intended to be used in substitution for professional advice.

## **Copyright**

This Business Payroll and Salary Packaging Guide is covered by copyright and may not be reproduced in any way or form or by any means without the written permission of Business SA.

Copyright © February 2020

Business SA

136 Greenhill Road, Unley SA 5061

## **Links**

Parts of the guide may have links through to webpages not controlled, associated or affiliated with us. We are in no way responsible for any content appearing on such a webpage. The fact that a link to such a webpage may be included in the guide does not mean that we in any way endorse, promote or are associated or affiliated with that site or any of that site's content.

## **Intellectual Property**

All text, graphics, software in the guide (including where included in advertisements) (Content) is our copyright material unless indicated otherwise. We and our suppliers may have trade marks (both registered and unregistered) subsisting in the Content. The Content is protected by relevant intellectual property laws.

We authorise you to download the Content once, to use and distribute strictly for your own personal and internal business use only. You are not otherwise authorised to modify, copy, republish, frame, adapt or distribute this Content without our written permission.

## **Conditions of Use and Disclaimer**

Whilst every effort has been made to ensure that the information contained in this Business Payroll and Salary Packaging Guide is free from error and/or omissions, no responsibility can be accepted by Business SA, its employees or any other person involved in the preparation of this Guide for any claim which may arise from any person acting on information contained herein.

The publisher will not be liable under any circumstances for any loss of profits or any damages of any kind recognised by law (even if it has been advised of the possibility of such loss of profits or damages) which are the consequence of you:

- acting, or failing to act, on any information contained on or referred to in this guide, the Content, the Materials and/or any of the external websites;
- using or acquiring, or your inability to use or acquire, any service or product contained or referred to in this guide, the Content and/or any external websites.

## **General**

These terms are to be governed by and construed in accordance with the laws of the State of South Australia.

## **Contact Information**

Business Advisory Services

136 Greenhill Road, Unley SA, 5061

Telephone: (08) 8300 0000

# Contents

Chapter 1: Introduction and Concepts.....	15
1.    What is the Payroll Process? .....	15
2.    Payroll Concepts and Definitions .....	15
3.    Common Questions about Payroll Processes.....	18
Chapter 2: Employment or Contracting .....	21
1.    Introduction .....	21
2.    Who is an Employer? .....	21
3.    Employee vs Contractor .....	21
Chapter 3: You are an Employer, What Now? .....	26
1.    Areas that Require Attention .....	26
2.    Registrations – Summary .....	26
3.    Employment Forms to be Completed .....	29
4.    The PAYG Withholding System – Its Application to Various Payments .....	39
5.    PAYG and Allowances .....	47
6.    Labour Hire Arrangements and PAYG Withholding .....	60
7.    Return to Work Payment .....	61
8.    Unused Leave Payments .....	61
9.    Foreign Employment Income Earned by Australian Residents .....	65
10.   Voluntary PAYG Withholding Agreement.....	67
11.   Daily or Casual Workers Withholding and working holiday makers .....	69
12.   Payments to Employees in Horticultural or Shearing Employment .....	70
13.   Paid Parental Leave .....	71
14.   Performing Artists.....	73
15.   Payments to Volunteers .....	75
16.   Recovery of Overpaid Amounts to Employees.....	75
17.   Payment of Remuneration to the Director of a Company.....	76
18.   Payment of a Salary, etc. to an Office Holder .....	76
19.   No ABN Withholding (47.0%) .....	76
20.   Paying the PAYG Withholding Tax to the ATO .....	76
21.   Pay-As-You-Go Payment Summary Requirements .....	82
22.   Taxable Payments Report.....	92
Chapter 4: Employment Termination Payments.....	94
1.    Introduction .....	94
2.    What is Subject to PAYG Withholding?.....	95
3.    Tax-Free Components of an ETP .....	95

4.	PAYG Withholding Rates Applicable to ETPs – Taxable Component.....	98
5.	Other ETP Issues – the 12 Month Rule.....	102
6.	Death Benefit ETPs.....	102
7.	PAYG Payment Summary Requirements – ETPs.....	103
Chapter 5: Superannuation Guarantee Scheme (SGS).....		107
1.	Introduction .....	107
2.	Who is an Employer for SGS Purposes? .....	108
3.	Who is an Employee for SGS Purposes? .....	108
4.	What Other Exemptions are there?.....	110
5.	What Earnings is the Superannuation Guarantee Contribution Payable On?.....	112
6.	Payment of Super Guarantee Scheme Contributions .....	119
7.	Other Superannuation Issues for Employers .....	128
Chapter 6: Payroll Tax .....		132
1.	Introduction .....	132
2.	Is Payroll Tax Registration Required by the Employer?.....	132
3.	What is Included in the Definition of Wages for Payroll Tax Purposes?.....	141
4.	Contractors and Payroll Tax.....	142
5.	What are the Payroll Tax-exemptions? .....	143
6.	Commissioner’s Ruling Regarding Materials Component of Contracts.....	147
7.	Grouping – South Australia .....	148
8.	Payroll Tax-exemptions.....	153
9.	Payroll Tax Rebates.....	155
10.	Fringe Benefits and Payroll Tax .....	156
11.	WorkCover for South Australian Workers .....	156
12.	Who is a Worker for Workers Insurance Purposes? .....	159
13.	What is Included in Remuneration? .....	162
14.	Lodgement Requirements for Employers.....	165
Chapter 7: Salary Packaging Defined .....		169
1.	Salary Packaging Concept.....	169
2.	Common Salary Packaging Questions and general terms.....	171
3.	Factors to Consider when Entering into a Salary Packaging Arrangement.....	177
4.	Common Terminology/Concepts of Packaging .....	178
5.	Fringe Benefits Tax Basics.....	180
6.	Role of the Fringe Benefits Tax System in Salary Packaging Arrangements.....	181
7.	Fringe Benefits Tax Procedure.....	183
8.	Taxable Value of a Benefit Provided to an Employee .....	183
9.	Benefits Provided in Respect of Employment .....	184
10.	Associates of an Employee.....	184
11.	Concept of Grossing-up the Value of a Fringe Benefit.....	184

12.	Interaction of the Goods and Services Tax and Fringe Benefits Tax .....	185
13.	Taxable Value of a Benefit: The Impact of an Employee/ Recipient Contribution .....	188
14.	Effect of Journal Entries in Employer's Accounts With Regard to Recipient's Contributions .....	188
15.	Reportable Benefits : Attaching Non-Salary Benefits to an Employee .....	189
16.	Fringe Benefits Tax and Business Activity Statement Completion .....	199
17.	Fringe Benefits Tax Flowchart.....	201
Chapter 8: Concessional Employers .....		203
1.	Non-profit employer and FBT .....	203
2.	Employers that can Provide Benefits Exempt from Fringe Benefits Tax .....	203
3.	Public Benevolent Institutions and Health Promotion Charities.....	206
4.	Impact of Salary Packaging at Various Employee Salary Levels .....	208
5.	Rebatable Employers.....	211
6.	Impact of the \$30,000 Cap on a Rebatable Employer's Fringe Benefits Tax Liability .....	211
7.	Public and Non-Profit Private Hospitals .....	212
Chapter 9: Commonly Packaged Benefits .....		214
1.	1. Benefits scope for employees .....	214
2.	Motor Vehicle Benefits .....	214
3.	Superannuation.....	231
4.	Expense Payment Benefits.....	235
5.	Record-Keeping Requirements .....	239
6.	Entertainment Benefits.....	241
7.	Miscellaneous Fringe Benefits Tax – Exempt Benefits .....	248
8.	Car Parking Benefits .....	251
9.	Property Benefits.....	254
10.	In-House Benefits.....	256
Chapter 10: Other Packaging Opportunities .....		258
1.	Introduction .....	258
2.	Packaging of Employee Bonuses.....	258
3.	Packaging of Leave Entitlements.....	259
4.	Living-Away-From-Home Allowances .....	263
5.	Loan Benefits .....	271
6.	Employee Share Schemes.....	272
Chapter 11: Documentation Requirements .....		275
1.	Introduction .....	275
2.	Employee Declarations .....	275
3.	Salary Sacrifice Agreements.....	276
4.	Australian Taxation Office Attitude to Salary Packaging .....	278
5.	Documentation for Motor Vehicle Benefits .....	279
6.	Documentation for Expense Payment Benefits.....	284

7.	Documentation for Living-Away-From-Home Allowance Benefits .....	285
8.	Fringe Benefits Tax Documentation .....	286
9.	Employee Share Scheme Statements .....	288
	Appendix 1: Sample Salary Sacrifice Agreement .....	290
	Appendix 2: Recurring Expense Payment Fringe Benefit Declaration.....	293
	Appendix 3: Expense Payment Benefit Declaration .....	294
	Appendix 4: Living Away From Home Declaration .....	295
	Appendix 5: Loan Fringe Benefit Declaration .....	297
	Appendix 6: Recurring Residual Fringe Benefit Declaration.....	298
	Appendix 7: Relocation Transport Declaration .....	299
	Appendix 8: Residual Benefit Declaration .....	300
	Appendix 9: Property Benefit Declaration.....	301
	Appendix 10: Recurring Property Fringe Benefit Declaration .....	302
	Appendix 11: Temporary Accommodation Relation to Relocation Declaration .....	303
	Appendix 12: Standard Choice Form .....	305
Chapter 12:	Miscellaneous Taxation Issues.....	307
1.	Salary Packaging and Employment On-Costs .....	307
2.	Upcoming Changes for Payroll and EOY Salary Packaging Strategies .....	308
3.	Entitlements Under Industrial Law.....	309
4.	Expatriate Employees and Salary Packaging .....	309
5.	Case Studies and Updates.....	311