


TD 92/D155 - Income tax: what arrangements between an employee and employer constitute a 'salary sacrifice' for income tax purposes?

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Draft Taxation Determination

Income tax: what arrangements between an employee and employer constitute a 'salary sacrifice' for income tax purposes?

1. A salary sacrifice occurs when an employee or an employee body renegotiates with an employer the award or employee's employment contract under which he or she works to reduce the gross salary entitlement in exchange for a lower salary together with a benefit from the employer. The salary sacrificed is the reduction in the employee's gross salary. This means that the employee is no longer entitled to the salary forgone. The entitlement is now the benefit provided by the employer. If an award is renegotiated any variation must be accepted by the relevant authority, eg the Industrial Relations Commission.

Example:

An employee renegotiates an award or contract to reduce gross salary entitlement from \$50000 to \$45000 on the condition that the employer provides free accommodation.

2. Arrangements of this type can be contrasted with those in which the employer deducts an agreed amount from an employee's gross salary in payment of expenses on the employee's behalf.

Example

An employee earning a gross salary of \$50000 per year rents accommodation from the employer for \$5000 per year. The rent is deducted by the employer directly from the employee's gross salary.

3. In the second example the employee's gross salary entitlement has not changed and therefore there has been no salary sacrifice.

Commissioner of Taxation
01/10/92

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