


TD 92/D143 - Income tax: what are the tax implications of a 'salary sacrifice' for an employee?

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Draft Taxation Determination

Income tax: what are the tax implications of a 'salary sacrifice' for an employee?

1. A 'salary sacrifice' occurs if an employee forgoes part of the salary he or she would otherwise receive, in return for other benefits.

2. In a salary sacrifice:

- the employee's income tax is based on the reduced amount of salary;
- tax instalment deductions are based on the reduced amount of salary;
- the benefit received is not subject to income tax in the hands of the employee; and:
- the employer may be subject to fringe benefits tax on the value of the benefit.

Example (a)

(a) Arnold renegotiates an award or contract to reduce his salary entitlement from \$50,000 to \$45,000 on the condition that his employer provides free accommodation.

In this example Arnold's salary for income tax purposes is \$45,000.

Example (b)

(b) Jan earns a yearly salary of \$50,000 and rents accommodation from her employer for \$5,000 per year. The rent is deducted by her employer directly from her salary.

Jan's salary for income tax purposes remains unchanged at \$50,000.

Commissioner of Taxation

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