


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

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## Draft Taxation Determination

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### **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**

17/09/92

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Related Determinations:

Subject Ref: salary sacrifice

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