

Otherwise Deductible Items

Benefits that would normally be tax deductible at the end of the financial year can be packaged to receive the benefit of tax deduction throughout the year.

Benefits of packaging otherwise deductible expenses

- Cashflow – packaging deductible expenses accelerates the ability to obtain the benefit of the income tax deduction for these expenses.
- By packaging otherwise deductible expenses and effectively claiming tax deductions during the year, your annual income tax return may be simplified.
- Packaging deductible expenses is a simple method instead of varying tax instalment deductions (PAYG variations) and achieves the same result.

An employee who incurs these expenses could benefit from packaging them.

Examples of otherwise deductible expenses include

- Work related self-education expenses.
- Income Protection Insurance.
- Work related travel.
- Professional Memberships and Subscriptions.
- Work related home office expenses.
- Interest on investment loan.
- Deductible repairs to an investment property.

Tax treatment of deductible expenses

Fringe benefits tax does not apply

- This is because you would normally be entitled to an income tax deduction for these expenses.

Reportable fringe benefits

- As no FBT applies, the benefit is not a Reportable Fringe Benefit.

GST

- Although many otherwise deductible expenses (such as investment loan interest, university or TAFE course fees) will be GST free, some tax deductible expenses (such as financial counselling fees, textbooks) are likely to be subject to GST. This is not affected by whether or not these items are packaged.
- If GST is charged and your employer is registered for GST you may be eligible to claim an Input Tax Credit for the amount of the GST paid. If this is the case, the benefit of this credit will be passed on to you unless your employer advises otherwise.
- If the deductible expense includes GST, the GST is part of the total expense and is therefore part of any allowable deduction.

Specific ATO rules and record keeping requirements apply to different types of tax deductions. You must understand and comply with these rules for any otherwise deductible expenses that you elect to package.

For further information refer to the Australian Taxation Office or your accountant.

You receive a tax benefit by salary packaging otherwise deductible expenses therefore you will NOT be able to claim an income tax deduction in your annual tax return (to do so would be 'double dipping').

By packaging otherwise deductible expenses tax instalments deducted from salary income are reduced. This means that a proportionate benefit of the tax deduction is received each pay period, providing improved cash flow and the ability to meet these expenses.

Otherwise deductible reduction relates to tax deductible expenses of the **employee only**, it does not apply to any expenses relating to an employee's spouse and/or self-managed superannuation fund.