

FBT – Guide and Further Information

The purpose of this document is to provide you with more information regarding Fringe Benefits Tax (FBT) to help you to identify fringe benefits you have or may have provided to your employees.

The following is an explanation of the major types of benefits that are potentially provided in everyday business dealings. Please note that each of the benefits described has various inclusions, exclusions and exemptions that can't be explained in detail here. However, these can be considered once we have identified whether a particular type of benefit has been provided.

If you have provided Fringe Benefits, let us know and we will review and calculate the Taxable Value and prepare a Fringe Benefits Tax Return for you.

We are happy to provide further information and also refer you to the Australian Taxation Office publication "Fringe Benefits Tax – A Guide for Employers".

Exempt Benefits

The FBT legislation has various exemptions relating to every category of fringe benefits. They are not all covered here, however please note the following tax deductible, but FBT exempt, items an employer may provide to an employee, called "eligible work related items" provided it is used primarily in the employee's employment.

The "eligible work related items" include:

- A portable electronic device
- An item of protective clothing
- A tool of trade
- An item of computer software
- A briefcase

Please note that there is a limit of one portable electronic device (phone, laptop etc) per FBT year, unless it is a replacement item.

An eligible work related item cannot be provided to an associate of the employee.

Car Fringe Benefits (with carrying capacity of less than 1 tonne and few than 9 passengers)

Motor vehicles are by far the most common fringe benefit. Essentially, this type of benefit arises where an employer's car is used by an employee for any private purposes, notwithstanding that the vehicle is also used for business purposes. Generally, this situation arises where an employee is provided with a vehicle for travel between home and work or uses a vehicle for any other private use.

The Fringe Benefits Tax Assessment Act (FBTAA) allows two methods for calculating the taxable value of the motor vehicle fringe benefit:

- Statutory Formula Method
- Operating Cost Method

We recommend providing us with details to calculate the taxable value under both the above methods; this then enables us to choose the method which gives you the best result for FBT purposes.

The statutory formula method calculates the taxable value based on a set formula which takes into account i) the cost of the car, ii) the number of kilometres travelled and iii) the number of days provided.

The record keeping for the operating cost method is much more onerous than the statutory formula method but this can, in many circumstances, achieve a lower FBT result. The taxable value is calculated by applying the log book percentage against the costs of operating the vehicle for the FBT year.

Even after we have done all the calculations, we may reduce the taxable value of the fringe benefit to nil through employee reimbursements or contributions. This can actually be paid in cash (e.g.

employee pays for petrol). In the case of employee shareholders, this is usually performed by way of a journal entry against their loan accounts.

Utes & Vans (with carrying capacity of 1 tonne or more; or 9 passengers or more)

Please note that these types of vehicles are not “Cars” and therefore have different FBT implications. These rules apply to panel vans, utility (utes) or other commercial vehicles (that is, vehicles not designed principally to carry passengers).

The private use of these types of vehicles can be exempt from fringe benefits tax but only where the private use of that vehicle is restricted to only minor, infrequent and irregular use. Examples in the past have included dropping off / picking up children to school on the way to / from work and the occasional trip to the tip.

However, the ATO has released a Practical Compliance Guideline (PCG 2018/3) that states that to be FBT exempt an employee’s private use of a vehicle should only include travel between their home and their place of work AND

- **any diversion must add no more than two kilometres to the ordinary length of that trip”; AND**
- **for journeys undertaken for a wholly private purpose (other than travel between home and place of work), the employee must not use the vehicle to travel more than 1,000 kilometres in total with each return journey not exceeding 200 kilometres.**

Where the private use is **more** than minor, infrequent and irregular (ie too many diversions or wholly private trips) a Residual Fringe Benefit has been provided and the method to work how much FBT is payable is different to the Car Fringe Benefit calculations.

There are two methods for valuing a Residual Fringe Benefit of private use of a Ute or Van:

- Operating cost method (same as Car log book/Operating Cost method); or
- Cents per kilometre basis (where there is extensive business use of the vehicle)

The FBT legislation doesn’t require the same level of detail as is required for valuing “car” benefits. For example, it’s not compulsory to keep a log book for non-cars. However, a business would probably need to keep some form of log book records to determine the extent of work vs private use of the vehicle. Otherwise, soundly based estimates of the number of private kilometres travelled are acceptable.

The taxable value of a Residual Fringe Benefit can still be reduced to zero by the employee reimbursing the company that amount (similar to employee contributions towards car fringe benefits).

Entertainment

This is one of the most complex areas of tax law. Depending on the type of entertainment provided and the circumstances in which the benefit was provided, the entertainment could be one of a number of types of fringe benefit discussed in this attachment. However at this stage we are only asking you to determine whether you potentially paid an expense which could be classified as entertainment.

Meal Entertainment Fringe Benefits

A meal entertainment fringe benefit consists of entertainment where food and drink is provided, travel and accommodation in connection with the entertainment is also included.

The taxable value can be calculated as follows:

- Election to use the 50/50 split method or
- “12 week register method”
- If no election is made, the actual expenditure is used

We will generally calculate the Fringe Benefit Tax implication under the 50/50 method and the actual method to determine which gives the best FBT result.

Generally sustenance expenses are not meal entertainment fringe benefits. These include:

- Staff amenities
- Morning and afternoon tea items
- Deductible travel away from home relating to local or overseas travel
- Eligible in-house meals
- Food and drinks provided at a seminar

We only require you to provide details that would give rise to a fringe benefit; however, it also gives us the opportunity to determine whether items of entertainment are tax deductible. Giving us more details about these transactions will aid us in completing your year-end tax returns.

To help us determine the FBT consequences please provide us with the following details for each transaction (or note in each relevant transaction in your data file):

- How many employees, family members or clients were involved?
- The location - was it on the employer's premises, was the employee travelling on business etc?
- The amount of the expenditure involved and whether any of this expense was reimbursed.

Car Parking Fringe Benefits

A car parking fringe benefit may arise if an employer provides car parking to an employee and all the following conditions are satisfied:

- the car is parked at premises that are owned or leased by, or otherwise under the control of, the provider (usually you as the employer)
- the car is parked for a total of more than four hours between 7.00am and 7.00pm on any day
- the car is owned by, leased to, or otherwise under the control of, an employee, or is provided by you
- the parking is provided in respect of the employee's employment
- the car is parked at or near the employee's primary place of employment on that day
- the car is used by the employee to travel between home and work (or work and home) at least once on that day
- there is a commercial parking station that charges a fee for all-day parking within a one-kilometre radius of the premises on which the car is parked and
 - the commercial parking station fee for all-day parking is more than the car parking threshold
 - at the beginning of the FBT year, the commercial parking station fee for all-day parking was more than the car parking threshold.

Small Business Concessions re car parking

If you are a small business employer, car parking benefits you provide are exempt if all the following conditions are satisfied:

- The parking is not provided in a commercial car park and
- You are not a government body, a listed public company, or a subsidiary of a listed public company, and either:
- You were a small business entity for the last income year before the relevant FBT year, or
- Your total income for the last income year before the relevant FBT year was less than \$10 million. For this purpose, your income includes ordinary income and statutory income as defined in the Income Tax Assessment Act 1997; that is, total gross income before any deductions.

If you are not sure about the above – please give your accountant a call to clarify.

Loan Benefits

A loan fringe benefit arises where an employer makes a loan to an employee, including a director. For these purposes a “loan” includes:

- Advance of money
- Provision of credit
- Payment of an amount on behalf of another person where that person has an obligation to repay

The focus of this type of benefit is on directors or shareholders “debit” loan balances with their companies. A “debit” loan balance is where the director owes the company money. If your loan account has gone into debit at any time during the FBT year we will have to obtain details of the movements to calculate the statutory interest.

A general ledger printout of the loan account gives us most of the information to enable us to do the calculations. We may already have prepared some accounts for you during the year and have details of these movements. Alternatively, these details may need to be compiled now.

If these loans are used for income producing purposes (e.g. you have borrowed money from the company to buy shares) there will be no taxable fringe benefit but we will still need to do the calculations for substantiation purposes. If interest is already being charged on the loan (e.g. a loan to an employee) then we will need the interest rate charged or the interest actually charged in order to calculate the taxable fringe benefit.

Note: A loan of property is not a loan benefit; this is defined as a “residual benefit”, which is discussed in a later section.

Debt Waiver Benefits

A taxable benefit arises where an employer releases an employee from a debt. The taxable value is the amount waived, so therefore we will require this information if applicable.

Expense Payment Benefit

An expense payment benefit arises where an employer pays or reimburses private expenses incurred by employees, including directors.

The following types of expenses comprise expense payment fringe benefits:

- Children’s school fees
- Private telephone accounts
- Electricity, gas (heat & power)
- Insurance premiums
- Drivers licence
- Holiday transport
- Home office computers
- Rates and land taxes
- Medical and health benefits
- Travel/credit cards
- Mortgage/loan payments
- Other - please ask us if you have any queries

In most cases, where the employee would have been allowed a “once only” tax deduction for the expense if the employer had not paid or been reimbursed for it, then the taxable value is reduced to the extent it is deductible.

We will need the following details in relation to expense payment fringe benefits:

- The name of the employee for whom it was paid
- The date, nature and amount of the payment
- The extent to which, if any, that the payment is tax deductible to the employee

Note: Any item for which depreciation will be claimed is excluded from being a once only deduction.

Housing Benefits

A housing fringe benefit arises where an employer provides an employee a right to occupy or use accommodation as a usual place of residence. This accommodation includes the following:

- House, flat, unit, hotel, motel, guesthouse, bunkhouse, ship, oil rig, caravan or mobile home.

If the accommodation cannot be described as the employee's usual place of residence then the benefit will not be a housing benefit, but will be a residual benefit.

Note: Accommodation whilst travelling on business will definitely not be a housing benefit. Depending on the circumstances, expenditure of this type will be fully tax deductible.

Living Away From Home Allowance (LAFHA) Benefits

A living away from home allowance benefit arises where an employer pays an employee an allowance to compensate for additional expenses or disadvantages suffered because the employee was required to live away from their usual place of residence for employment purposes.

The following requirements must generally be satisfied:

- The employee was required to live away from their usual place of residence;
- The employee must be paid an allowance in addition to salary;
- An allowance must be paid in respect of employment;
- An allowance was paid to compensate the employee for additional non-deductible expenses and other living disadvantages incurred because the employee is required to live away from home to perform employment duties.

Unless all four of these conditions are satisfied the amount paid to employees is assessable to them as a normal allowance. The extent to which a LAFHA benefit is subject to FBT will be determined on the basis of the facts, so please provide as much information as you can about such an arrangement if you think it applies to you.

Property Benefits

A property benefit arises when an employee is provided with property, free or at discount, by an employer. Property includes goods, real property such as land and buildings and 'choses in action' such as shares and bonds.

If you have provided employees with any goods during the year please provide as many details as possible (i.e. what was provided) to determine whether a fringe benefit has been provided.

Food and drink consumed by current employees on a working day on the employer's premises is an exempt property fringe benefit.

Note: Property is provided when the ownership passes. If ownership does not pass (e.g. the employee used the property for a time) then this would be classified a residual benefit.

Residual Fringe Benefit

Essentially, any other benefits you may have provided to employees in respect to their employment are covered by residual fringe benefits. Examples of residual fringe benefits are free or discounted services, such as travel or performance of work, the use of property and the provision of insurance coverage. The provision of vehicles other than cars, (e.g. hire taxis, rental cars, trucks and motor cycles) also fall under this category.

Please contact us if you wish to discuss any potential residual benefits you may be providing to employees.