

Fringe Benefits Tax for ACT Government

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Agenda

- Overview of FBT basics
- Calculation of FBT for different benefit types
- Record keeping requirements
- Preparation and lodgement of the FBT return
- Salary packaging



FBT Overview

Tax on *employers* on *fringe benefits* provided to *employees*

- “Benefit” includes any right, privilege, service or facility
- “Fringe benefit” does not extend to salary, ETPs, most superannuation contributions
- Benefits to associates of employees taxable



Calculation of FBT

The FBT calculation for a single benefit is

Taxable value x gross-up rate x FBT rate

Where;

- Each benefit type has a specific taxable value calculation
- Two gross up rates exist to provide equality between cash salary and benefits
 - Type 1 (2.1292 – ITC entitled) and Type 2 (1.9417)
- FBT rate is 48.5% – exemption or rebate may apply



Recipient's Contribution

1/11th of recipient's after tax contribution is GST

- Report on BAS and remit to ATO

Payments made to third party by employee do NOT need to be reported on BAS

- GST on these amounts will have been remitted by third party
- Example: payment by employee to petrol station. Petrol station proprietor will have reported on BAS. Don't need to capture again in employer BAS



Otherwise Deductible Rule

Applies where the employee would have received a once only deduction

- Example: home telephone call costs where calls were business related



Reportable Fringe Benefits

All benefits other than excluded fringe benefits

Excluded

- Car parking
- Meal entertainment
- Remote Area

Report where taxable value greater than \$1,000

Always gross up by 1.9417



Exempt Benefits

Car expenses where car provided as a car fringe benefit

Certain costs associated with ***relocation***

- Removal and storage costs
- Sale or acquisition of home
- Connection of utilities
- Relocation transport

Work related counselling



Exempt Benefits

Minor and infrequent

- Does not apply to tax exempt body meal entertainment benefits

Property consumed on business premises

- Does not apply to tax exempt body meal entertainment benefits

Mobile phone primarily for business use and ***laptops***

Taxi travel



Car Fringe Benefits

Car owned or leased by employer

- < 9 passengers
- < 1 tonne
- Not a motor cycle

Owned or leased

- Lease must be in employer name



Car Fringe Benefits

Provided to employee for *private use* or *available for private use*

- Not in the course of producing assessable income
- Home garaging taken to be available for private use
- Not for private use if emergency vehicle fitted with sirens etc
- Not for private use if carrying bulky equipment (MT 2027)



Car Fringe Benefits

Exempt work vehicles

- travel to and from work and for other private use that is minor, infrequent and irregular
- It must be a taxi, panel van or utility truck (less than 1 tonne capacity) or other road vehicle of less than 1 tonne capacity or fewer than 9 passengers
- Similar exemption applies for residual benefits



Car Fringe Benefits

Statutory formula method or operating cost method for calculating taxable value

- use method that gives lowest taxable value on car by car basis
- Declaration required for operating cost method



Car Fringe Benefits

Statutory formula

$$\frac{ABC - E}{D}$$

A: base value

B: statutory fraction

C: number of days benefit provided

D: number of days during year of tax

E: recipient's payment



Car Fringe Benefits

Operating cost

$$[C \times (100\% - BP)] - R$$

C: operating costs

BP: business percentage

R: recipient's payment



Car Fringe Benefits

Log book requirements

- Must be kept for at least a 12 week period
- Date journey began and ended
- Odometer readings at beginning and end
- Number of kilometres travelled
- Purpose or purposes of journey
- Need not include entries for private travel



Car Fringe Benefits

Recipient's payment – remit GST if paid directly to employer

Gross up rate depends on whether GST applies to lease/purchase

- If GST in purchase/lease costs then type 1 (2.1292)

Allocation to employees when pooled car

- Records to show allocation basis
- Kilometres or nights home garaged?



Car Parking Fringe Benefits

For a car parking fringe benefit to arise the car park must be

- Employer controlled premises
- Near the employee's primary place of employment
- Car used to travel between home and work
- Within 1 km of commercial parking station charging > \$6.28 per day
- Car parked for > 4 hours between 7am and 7pm



Car Parking Fringe Benefits

Valuation

- Lowest GST inclusive fee charged on each day
- Valuation by suitably qualified valuer
- Average lowest GST inclusive fee for the year

Number of benefits

- Actual
- 12 week register
- Statutory formula



Expense Payment Fringe Benefits

Pay third party or reimburse employee for expense

- Any expense incurred by employee
- Common examples are HECS, home telephone

Otherwise deductible reduction

- Otherwise deductible: Employee entitled to once only deduction
- Declaration may be required from employee or signed by employer



Expense Payment Fringe Benefits

Exemptions

- Expenditure re employee LAFH eg rent
- Relocation expenditure
- Taxi travel
- Work-related expenses



Expense Payment Fringe Benefits

Taxable value is amount reimbursed/paid

Gross up rate depends on whether input tax credit entitlement exists

- payment of private telephone expenses – includes GST so gross up at 2.1292
- HECS is GST free so gross up rate 1.9417



Property Fringe Benefits

Provision of any property

- Property widely defined – tangible, intangible and rights
- Only where property passes eg does not include home use of a desk top computer



Property Fringe Benefits

Valuation depends on whether in-house or external

External

- Cost price to provider
- Notional arm's length price

Reduced by recipient's contribution



Property Fringe Benefits

Gross up rate

- Internal property fringe benefit – 1.9417
- External property fringe benefit – depends on whether GST paid by provider in purchasing the property



Residual Fringe Benefits

Catch all provision

- Common example would be private use of a hire car for less than 12 weeks

Exemptions

- Travel where provider in business of providing travel
- Child care on premises
- Use of property on business premises eg internet use



Residual Fringe Benefits

Valuation depends on whether in-house or external

External

- Arm's length value

Reduced by recipient's contribution



Living Away From Home Allowance

Compensation to cover disadvantages of living away from home

Living away from home versus

- Travelling
- Relocating

Taxable value reduced by exempt accommodation component and exempt food component provided employee declaration is obtained.



Living Away From Home Allowance

Exempt accommodation component

- What is reasonable?
- Level of employee, location, family size, duration of assignment

Exempt food component

- Additional food costs
- Once off pantry items



Housing Fringe Benefits

Where, during the whole or part of a year, a housing right (accommodation that is the person's usual place of residence) is granted

Taxable value of the benefit is generally the market rental value of the house

For properties in Australia, the market rental value can be indexed from year to year (max. of 10 years) based on ATO rates



Housing Fringe Benefits

Exemptions

- Remote area housing benefits
- No liability where accommodation provided to employees who work at remote construction sites, where accommodation not the usual place of residence (TD 96/7)



Tax Exempt Body Entertainment Fringe Benefits

Tax-exempt body entertainment benefits apply to income tax exempt entities providing “entertainment”

- Entertainment by way of food, drink or recreation; or accommodation or travel to do with...
- Not if sustenance only
 - Light lunches while working
- Decision in Amway and concept of “hospitality”



Tax Exempt Body Entertainment Fringe Benefits

Taxable value calculated by 50/50, 12 week register or actual

- Actual: based on actual receipts for entertainment provided to employees
- 50/50: FBT on 50% of total entertainment
- 12 week register: based on entertainment provided to employees and associates according to 12 week representative register

Only claim ITC on entertainment that subject to FBT



Tax Exempt Body Entertainment Fringe Benefits

Tax exempt entities cannot apply

- s58P – minor and infrequent exemption
- s41 – property consumed on business premises



Record Keeping Requirements

The main record keeping requirements are

- All documentation for 5 years
- Car log books
- Travel diaries
- Declarations from employees
 - Otherwise deductible
 - Living away from home
 - Employee contributions & business use of cars



Record Keeping Requirements

The main record keeping requirements (cont'd)

- Elections to use various calculation methods
 - 50/50 split method for meal entertainment
 - Car parking statutory formula & average cost
 - Operating cost method for cars



FBT Return Lodgement

Main considerations for lodgement/calculation of FBT

- Lodgement date – 21 May
- Reportable fringe benefit amounts
 - Provide to employees prior to lodgement?
- Software used to calculate FBT/reportables
- Checklists/review process
- Documentation of procedures



What is salary packaging?

Salary packaging involves

- Converting cash salary or wages for non-cash benefits of equal cost to the employer
- Considerable flexibility in remuneration
- Benefits are not taxed as income, but the incidence of FBT is designed to offset this
- GST credits will be available to the employer
- Superannuation entitlements



Charges to the Package

To maintain TEC, we charge to the package

- Actual cost of providing benefit
- Actual FBT payable for the benefit
- GST payable on employee contribution (if any)
- Tax effect of any non-deductible components
- Administration charge

This may be offset by certain “add-backs”

- Input tax credits claimed by the employer
- On-cost savings (less common)



Charges to the Package

For a salary packaged car, the charges would be

- Actual lease costs including GST
- Cost of car expenses including GST (fuel, oil, registration, insurance and repairs)
- FBT payable on the car benefit
- Input tax credits on lease, fuel & oil, insurance and repairs added back



Benefits of Salary Packaging

Benefits to the employee

- Cash benefit from exempt or concessional tax benefits because the FBT is less than the income tax that would have been paid
- Also, the cash salary and reportable FBT amount will be lower than cash salary alone, leading to greater entitlements and less surcharges



Effective Salary Packaging

(TR 2001/10)

Requirements for effective salary packaging

- Clear documents spelling out entitlements, including residual entitlement
- Enter into agreement before you earn any of the components of the remuneration
- Cancel old agreements
- Ensure contract of appointment does not prohibit benefits
- Ensure awards not breached



Effective Salary Packaging

(TR 2001/10)

Requirements for effective salary packaging

- Spell out salary on which super, annual leave and long-service leave will be based
- Proforma agreements
- Obtain appropriate declarations from employees



Effective Salary Packaging (TR 2001/10)

Result of ineffective SSA

- Amount sacrificed is salary or wages, included in assessable income of employee
- Employer has PAYG withholding liability
- ‘sacrificed’ super contributions are employee contributions from after tax income – they will not satisfy the employer’s requirement to provide super contributions

Question Time