BAN TACS
National Accountants Group

NEWSFLASH BOOKLET

Visit us at www.bantacs.com.au

Fringe Benefits Tax (FBT) For Public Benevolent Institutions (PBI'S) And Public Hospitals

Phone 13000 22682

For website technical support, email technicalservices@bantacs.com.au
For all accounting & tax support contact one of our offices or just go to www.taxquestions.com.au

NEW SOUTH WALES	QUEENSLAND	SOUTH AUSTRALIA
Sydney 1300 367 688 sydney@bantacs.com.au	Brisbane 1300 911 227 brisbane@bantacs.com.au	Adelaide 08 8352 7588 adelaide@bantacs.com.au
Bankstown 0484 582 788 bankstown@bantacs.com.au	Caboolture 07 5497 6777 admin@bantacsningi.com.au	**VICTORIA**
Burwood 1300 367 688 burwood@bantacs.com.au	Mackay & Whitsundays 07 4951 1848 mackay@bantacs.com.au	Melbourne 03 9111 5150 melbourne@bantacs.com.au
Central Coast 02 4390 8512 centralcoast@bantacs.com.au	Ningi 07 5497 6777 admin@bantacsningi.com.au	**FIND OUT MORE** http://bantacs.com.au/aboutus/
ACT	Toowoomba 07 4638 2022 toowoomba@bantacs.com.au	
Canberra 02 6154 7792 canberra@bantacs.com.au	Gold Coast 0435 437 586 goldcoast@bantacs.com.au	

Visit Bantacs.com.au About Us section to view office location details and information about BAN TACS practitioners

Liability limited by a scheme approved under Professional Standards Legislation

Important

This booklet is simply a collection of Newsflash articles relevant to FBT for PBI's. The articles are transferred from Newsflash into this booklet so it is best read from the back page forwards to ensure you are reading the latest article on the topic first. Note that the information contained in this booklet is not updated regularly so it is important that you seek professional advice before acting on it.

Introduction

Public Hospitals and Public Benevolent Institutions (PBIs) are permitted to pay their staff a limited amount of fringe benefits without having to pay Fringe Benefits Tax (FBT). This means the employee effectively receives these benefits in tax free dollars. The following box explains exactly what dollar value the employees are entitled to. But if you find it too hard just work on the basis that if you work for a Public Hospital you can receive between $8,234 and $9,095 worth of benefits tax free and employees of PBIs can receive between $14,530 and $16,050 worth of benefits tax free.

For the Number Crunchers

You first need to find out whether the benefits you want are subject to GST or not. If they are subject to GST their gross up rate is 2.0647 if not 1.8692. No doubt your parcel will have a mixture of both so each package will need to be calculated individually. Examples of benefits that are not subject to GST include private school fees, mortgage repayments and private health insurance. Employees of public hospitals are entitled to $17,000 grossed up before their employer has to pay FBT and employees of PBIs are entitled to $30,000 grossed up before their employer has to pay FBT.

To keep it simple lets assume all the benefits packaged are subject to GST this means an employee of a public hospital can package $17,0000 / 2.0647 = $8,233.64 in actual cost of benefits and an employee of a PBI can package $30,000 / 2.0647 = $14,530 in actual cost of benefits.

Basic Rules for the Exempt Part of the Package

1) The exempt part of the employees package is the portion that is not subject to FBT described above. The exempt amount you are entitled to receive is per employer so if you have two different employers that are entitled to give you an exempt amount you are entitled to twice as much.
2) It is also a waste to package into the exempt portion of your package any fringe benefits that are exempt or concessionally treated in their own right. Examples of benefits that do not receive any concessions in their own right include, mortgage repayments, private school fees, private health insurance, credit card repayments, electricity and phone bills that are not otherwise deductible.
3) Do no package superannuation into the exempt portion of your package as this will result in it being taxed in the hands of the superannuation fund. Whereas if the money had been spent on any other item it would not have been taxed at all.
4) Do not package into the exempt part any expenses that you would be able to claim a tax deduction for in you own income tax return.
5) There is no point in salary sacrificing down to a level where your taxable income from all sources is less than $10,000.
6) It is quiet possible that your employer will not pay superannuation on the portion of your package that you sacrifice. If you are injured at work Workcover will only pay you your actually salary while you are off work recuperating not the fringe benefits.

7) Unlike other exempt benefits the exempt benefits you receive because your employer is a PBI or Public Hospital are still required to be reported on your PAYG Summary (Group Certificate, section 135Q) so they will still be counted by Centrelink, for the Medicare or Superannuation surcharges etc. Note the amount that appears on your PAYG summary is what you received grossed up by 1.8692. Centrelink adjusts this back down again the amount you actually received.

What to Do Once You Have Used up Your Exempt Portion

Most fringe benefits are effectively taxed at 46.5% so there is no real advantage in receiving them and a big disadvantage if you are not in that tax bracket yourself. Some may gain an advantage from reducing their taxable income as Fringe Benefits are not included in your taxable income but the grossed up value of them is included on your group certificate and in your income tax return. Whenever your taxable income is relevant, the authority you are reporting to will probably request the Fringe Benefits Tax Amount as well. Therefore the only real advantaged gained by arranging a Fringe Benefit Package over and above the exempt portion is from those benefits that are either exempt, concessionly taxed or not reportable in their own right. Examples of these three classes of benefits are as follows:

Exempt:

Otherwise Deductible Benefits – **Tools, Briefcase, Calculator, Electronic Diary, Trade Journals etc**. Items that would be tax deductible to you if you purchased them yourself. As far as your taxable income and the tax payable, you are in the same position whether you or your employer pays for the item but there is a bonus in that your employer (in most cases) would be entitled to an input credit for the GST which employees are not normally entitled to. Note there is no GST credit available on interest.

An interesting turn on this concession was taken to its full advantage in the National Australia Bank v FCT, 93 ATC 4914 where interest on a jointly owned property is effectively fully deductible to the highest income earner through salary sacrifice and the otherwise deductible rule. Refer the section on Secret Plans and Clever Tricks for more detail.

Protective Clothing and Computer Software – Only if needed for employment purposes.

Airport Lounge and Corporate Credit Card Membership

Taxi Travel – When one end of the journey is the place of work or if the travel is related to sickness or injury.

Certain Vehicles – Motor Cycles, Utes and some Dual Cabs are exempt from FBT if they are only used for home to work travel, business purposes and other minor, infrequent and irregular travel. The benefit received is exempt, MT 2034. Refer Secret Plans and Clever Tricks below.

Superannuation – Note the superannuation fund will have to pay 15% tax and possibly the surcharge on the contribution your employer makes on your behalf but in nearly all cases this would be less that the tax you would have to pay if you received the money yourself. The further benefit is any future earnings on this investment will only be taxed at 15%.

Minor Benefits – These are irregular benefits that cost the employer less than $300 (Until 31st March 2007 this limit is only $100). Note you can use an employee contribution to bring a benefit that is over the $300 mark down to $300.

Laptops – Your employer can give you a new laptop each year without any FBT liability.

Mobile Phones – Providing it is used primarily for work related purposes.

Relocation Costs - This includes travel meals and accommodation en-route for all the family. The cost of temporary accommodation, costs of selling and purchasing a home are also exempt.

With these benefits your employer does not pay FBT and the amount of the benefit does not appear on your group certificate or tax return. Nevertheless, your employer will no doubt reduce your income to pay for the benefit so it must be of use to you. For example if your employer reduces your pay by $100 to provide you with a minor benefit your never use you have just wasted at least $53.50 in after tax dollars.

Concessionly Taxed:

Car Benefits – Other than cars included under exempt benefits. Car benefits calculated under the statutory formula can be used to your benefit if you travel a decent amount of kilometres for private purposes. On the other hand if the car does not travel a lot of kilometres or a high percentage of the travel is work related the formula can work against you. The formula determines the taxable value of the car benefit by multiplying the original cost of the car by one of the following percentages depending on the number of kilometres it has travelled that year:

Kilometres Travelled	%	Kilometres Travelled	%
Less than 15,000	26%	25,000 to 40,000	11%
15,000 to 24,999	20%	Over 40,000	7%

Note if the car has been owned by the employer or an associate of the employer for more than 4 years only two thirds of the original cost is used to calculate the taxable benefit.

Non – Reportable:

Non reportable benefits are only a benefit to you if you have something to gain by understating your taxable income. Being not reportable does not stop the benefit being effectively taxed at the maximum tax rate through FBT. Further don't forget the superannuation guarantee and workers' compensation disincentives. If the taxable value of all your fringe benefits (excluding exempt and non-reportable ones) is less than $1,000 they are not required to be recorded on your group certificate. The $1,000 threshold increases to $2,000 from 1st April, 2007.

Examples of other non-reportable benefits are:

- **Meal Entertainment**
- **Car Parking**
- **Entertainment Facilities**
- **Overseas Emergency Health Care or Living Allowance**
- **Police Cars, Ambulance and Fire Vehicle** – When driven between work and home.
- **Benefits to the Defence Forces –** For example storage, reunion travel, housing, rental assistance, removal, and travel assistance upon marriage breakdown.

Employee Contributions

The following only applies if you package (salary sacrifice) more then the exempt limit permitted because your employer is a PBI or Public Hospital.

If your taxable income after salary sacrificing is less than $150,000 and your employer does have to pay some FBT on your package you need to make an employee contribution to bring the amount subject to FBT down to zero. This is done by paying your employer out of your after tax pay the amount calculated by your employer to be subject to FBT before grossing up.

An employee contribution is not necessary for exempt benefits because the taxable value for FBT is already zero. Employee contributions can be very useful when packaging a car as there are benefits in using the formula method but they still leave a bit of FBT payable.

The employer must pay GST on employee cash contributions it receives.

Rules to ensure you get the most from packaging a car

There is no doubt that the calculations relating to salary packaging a car are complex. Unfortunately this means that many employees don't crunch the numbers. For years we have been advocating spreadsheets and crunching the numbers but nobody seems to be interested. So instead we have produced a few basic rules, that in most circumstances, will ensure you maximise the benefits provided by FBT. Ideally you should seek professional advice in regard to your particular circumstances. But if that is never going to happen at least make sure you cover the following:

1) Work out the taxable value of the car and make an employee contribution of this amount this will not only ensure you get the maximum benefit but also reduce the amount of workers' compensation and superannuation contributions you lose. To calculate the taxable value of a car multiply the original GST inclusive purchase price (unless over 4 years old) by one of the following depending on the amount of kilometres the car travels within a year:

Kilometres Travelled	%	Kilometres Travelled	%
Less than 15,000	26%	25,000 to 40,000	11%
15,000 to 24,999	20%	Over 40,000	7%

2) If the taxable value before grossing up is more than the actual cost of running the vehicle you are in the unusual position where salary packaging the car will not benefit you.

3) The employee should not incur any direct costs in regard to the car or if unavoidable the employee should be reimbursed for these costs, as the employee is not permitted a tax deduction for them. To do otherwise could result in the amount effectively being taxed twice plus GST.

4) As the employee will not be entitled to a tax deduction for the vehicle even under the kilometre method, careful crunching of numbers should be done before the package is taken if the car is used at all for business. If a car used for business purposes is already packaged it may be necessary, to ensure the maximum benefit, to keep a log book and use the actual costs method rather than the formula.

5) Do not package a car in the portion of your package that is exempt because your employer is a PBI or Public Hospital.

Secret Plans and Clever Tricks

Home To Work Travel An Exempt Fringe Benefit:

Providing the following vehicles are only used for home to work travel, business purposes and other minor, infrequent and irregular travel. The benefit received is exempt, MT 2024.

a) Motor Cycles
b) Vehicles designed to carry a load of at least one tonne
c) Taxis, panel vans, utilities and commercial vehicles designed to carry a load of less than 1 tonne but not principally designed to carry passengers. According to MT 2024 this includes Nissan Navara Dual Cab Ute DX, Mazda Bravo 4WD Dual Cab Ute DX5, Toyota Hilux 4x2 Dual Cab Ute, Ford Courier 4x2Crew Cab pick-up GL and Holden Ute Series III 179kw V8. Other vehicles that have more load space than passenger space may well qualify.

If you have a long way to travel to work and cannot make that trip otherwise deductible (i.e. carry bulky tools due to no safe storage at work) it may be worth purchasing a vehicle that fits into one of the classes above, if you have another car to use for private. This will effectively allow you a tax deduction for your entire home to work travel. Or in dollar terms halve your costs of running the vehicle if you are at the maximum tax rate.

Rental Properties:

TR 93/32 and Case 63/96, 96 ATC 578 clearly state that expenses relating to a rental property owned by more than one person must be apportioned in accordance with the ownership interest. For many years this has been a problem when one of the owners is in the zero or a lower tax bracket than the other and the property is negatively geared.

National Australia Bank v FCT, 93 ATC 4914. has provided a window of opportunity here through salary sacrificing. This case resolved that a loan provided jointly to an employee and associate was 100% exempt from fringe benefits under the otherwise deductible rule even though the employee would have only been entitled to 50% because the other 50% was in regard to an associate of the employee i.e. a spouse.

For example A & B are married and own a rental property as joint tenants which means they automatically are required to split the profit or loss from the property 50:50. The loan, rates, insurance etc are also in joint names. A has no other income and B is in the maximum tax bracket by more than $20,000.

The property is negatively geared as follows:

Rent Income		$15,000
Less:		
Rates ($1,800), Insurance ($600) & Interest ($18,000)	$20,400	
Special Building Write Off	5,000	25,400
Loss		10,400= 5,200 each

The tax refund to B is $2,418 ($5,200 x 46.5%). A receives no refund but may be able to carry forward the losses for the future unless exempt income such as Family Payment Part B is being received. The actual after tax cash flow cost of the rental property is the rates, insurance and interest of $20,400 less rent received of $15,000 less the tax refund of $2,418 = $2,982 out of pocket each year.
If B salary sacrifices expenses they are paid before B's 46.5% tax bracket is applied to the income. This is the equivalent dollar wise to claiming a tax deduction but no FBT is payable by the employer because of the otherwise deductible rule. If B salary sacrifices the Rates, Insurance and Interest, a total of $20,400 B's take home pay is only reduced by $20,400 x 53.5% = $10,914 because unlike take home pay no tax was payable on the $20,400.

The rental property net income calculation for A &B is now as follows:

Rent Income	$15,000
Less: Special Building Write Off	5,000
Profit	$10,000 = $5,000 each. Note this will have a minor effect A's part B family payment.

The $5,000 will be included in B's taxable income resulting in a tax bill of $2,325. Under the traditional method the property was costing an extra $2,982 in cashflow each year. Under the salary sacrifice method the cashflow would be the rental income of $15,000 less the reduction in take home pay of $10,914 less B's tax payable of $2,325 and A's loss of part B say $200 ($1,000 x .20) = $1,561 positive. That is an annual saving of $2,982 plus $1,561 = $4,543.

Note there are many other scenarios that could apply to your rental property. If the property is positively geared in most cases it would be better just in the name of the spouse in the lower tax bracket. Each case needs to be looked at individually.

Not only does the above allow a high income earner to maximise the negative gearing benefits but when the property is sold at a profit the capital gains are still be apportioned on the basis of ownership. Therefore the low income spouse receives an equal share of the gain despite the fact he or she did not claim an equal share of the expenses. Further this provides brilliant flexibility in that if the low income earner becomes the higher income earner simply change the person who participates in the salary sacrifice arrangement.

Careful, do not salary sacrifice special building write off or depreciation of plant and equipment. The otherwise deductible rule would not apply to the principle portion of the repayments so make sure you only sacrifice the interest portion. If you have any non deductible debt the rental property loan should be interest only anyway. The above only applies to properties that the employee has an ownership interest in and expenses that the employee is liable for even if only proportionately liable.

Danger:
Public Hospital or PBI employees who salary sacrifice into superannuation could be paying at least 15% too much tax.
Employees of exempt employers, which are Public Hospitals or Public Benevolent Institutions (PBIs), are entitled to receive a set amount of fringe benefits without their employers being liable to pay FBT. It is the intention of the government in providing this concession to help these employers attract staff so taking advantage of this is perfectly legitimate with the ATO. Public Hospitals are permitted to pay each employee the grossed up equivalent $17,000 and PBIs $30,000 without the employee being subject to income tax and the employer is not subject to FBT. But if this money is directed into Superannuation the Superannuation Fund will consider it an employer contribution and pay the ATO 15% contributions tax on it. To contribute some for the exempt portion of your package into Superannuation is to effectively take it out of a tax free area and make it taxable.
Please take the time to get the right advice. Even the ATO does not want to collect tax here. If you can't BAN TACS at least minimise it legally.

FBT Time

What you need to do this month:

On 31st March the speedo reading should be taken for all vehicles that are available for the private use of employees.
If you want the option of choosing between the statutory method and the formula method for measuring the FBT on a car supplied to an employee and a log book has not been kept for the last 5 years, the log book must be started before 31st March.
Many Employers don’t realise they are required to complete an FBT return because they don’t realise they provide Fringe Benefits to their employees.
You don’t need to be providing cars and other obvious benefits to be liable for FBT; the following also create an FBT liability:

- Christmas parties where the benefit to an employee including his or her family exceeds $100 ($300 from 1st April, 2007)
- Loans to employees where the deemed interest would exceed $100 ($300 from 1st April, 2007) this includes overpayment of wages (ID2003/233) and any advance of money or credit terms (section 136(1))
- Use of the Company Bus, Ute, Truck etc for private purpose and the value of the benefit exceeds $500.

Enough compliance issues now for some fun. Secret Plan & Clever Trick number 24 (Refer booklet at www.bantacs.com.au for the other 23). When an employer leases a car for an employee under an arms length novated lease with a residual value that complies with IT28 and the employee purchases the car at the end of the lease any profit the employee makes when selling the car is not subject to FBT. ID2003/320 says that the employee is also not taxed on it under Subdivision 20-B. But the ruling does not specify that the income is not assessable under section 6-5. TR 92/3 at paragraph 16 states that a transaction of a non business taxpayer is not considered income if the intention of the transaction is not profit making. Accordingly, it is not recommended that you pay the residual and sell the car immediately. It must be clear that you didn’t purchase the car purely with the intention of selling it at a profit. Note this will not work for the self employed using a company or a trust, as they will be caught by Subdivision 20-B because the lease payments have been made by an associate.

Salary Packaging

With the maximum tax bracket Threshold lifting to $150,000 in the 2006/2007 year it is time to re evaluate your salary package. If you are receiving fringe benefits as part of your package your employer will be paying FBT on these at the maximum tax rate. If you are not in the maximum tax bracket any more it is important that you make an employee contribution to bring the taxable benefit down to zero. This will effectively mean the benefit is taxed at your tax bracket rather than the maximum bracket

FBT Year Draws to a Close

On 31st March the FBT year comes to a close. This unusual date was created to reduce the pressure around the 30th June. That was before reportable fringe benefits were introduced. Now the fringe benefit you calculate as at the 31st March will appear on the employee's PAYG summary for the year ending 30th June. There is no need to add on the next 3 months but the 3 months before the 30th June in the previous year is included. This also means that if an employee leaves your employment between the start of April and the end of June and they were receiving fringe benefits, you will have to provide them with a PAYG summary in the year after they leave your employ. Of course it will not include any income just the reportable fringe benefits. The good news this year is that you do not have to include in the reportable amount the value of pooled cars, saves all that argument over who used what when. Don't forget that even if the benefit is grossed up for FBT purposes at the higher rate, for the purposes of the reportable fringe benefits box on the PAYG summary the gross up rate is 1.8692.

If this is starting to go over your head please refer our Fringe Benefits Tax booklet which is available under the free publications section of our web site and please remember we don't make the rules.

To Do Before the 31st March, 2008:

1) If it is getting close to or more than 5 years since a log book was kept on a vehicle one needs to be started before 31st March so it will cover you for all of that FBT year.
2) Make sure you have all the necessary written employee declarations, it may even be worth writing into your employment agreements that the employee is liable for any penalties you incur if these declarations are found to be incorrect. Employee declarations are high on the ATO audit hit list. Examples of some of the types of benefits requiring declarations are:
   - When applying the otherwise deductible rule the employee needs to declare that the expenses are deductible or work related and that there is no private use or what percentage is applicable. Likewise if you pay your employee's mobile phone bill a declaration is necessary stating that the phone is used at least 50% for business.
   - When the fringe benefit of a car is calculated on an actual cost (log book) method the employee needs to declare the period of time they used the vehicle, the total kilometres driven by the vehicle and kilometres used for business.
   - In the year that a log book is actually kept a declaration also needs to be made stating the log book was kept for 12 consecutive weeks and the percentage of business use.
   - If the 12% of cost method or 1/3rd of all expenses method is used the employee must declare that the vehicle travels more than 96 kilometres per week and the weeks the employee used the vehicle.
   - In the case of payment of a living away from home allowance the employer needs to declare the period of time away from home, why they were away from home, where home is, the type of residence, where he or she resided while away from home and the applicable time period.
   - A travel diary detailing each day's itinerary will also be necessary for overseas travel of more than 5 nights.
   - If you are providing your employee with temporary accommodation while they are relocating they need to declare the date they commenced looking for permanent accommodation, their employer's name and the new location. If it takes more than four months to find permanent accommodation a declaration also needs to be made as to whether the employee owned their previous accommodation. If they did not

own their previous accommodation they can receive the exempt temporary accommodation for up to 6 months but after 4 months they have to declare that they are unable to find accommodation. If they did own their home previously but have sold it, they get 12 months with the appropriate declaration. In both cases the address of the temporary accommodation needs to be included and a statement that the move was solely for work purposes.

3) Make sure you take the speedo reading for all vehicles on 31st March

The basics for this year:

This FBT year has 366 days so don't forget this when working out the portion of days a car was available for private use.

The benchmark interest rate for loans and deemed interest rate for cars under the actual cost method is 8.05%.

The gross up rate for fringe benefits that are subject to GST is 2.0647 and if not 1.8692

Benefits that are not reportable on an employee's PAYG summaryinclude:

Meal Entertainment

Car Parking

Entertainment Facility Leasing expenses ie corporate boxes

Pooled or shared cars – really you only have to let another employee use the car once to not have to report

Remote Area Benefits

Protecting the personal safety of employees

Emergency Overseas Health care

Overseas Living Allowances

The use of emergency vehicles or police cars (including unmarked police cars) to drive to and from work

Defence Force Member's Benefits

***A Few Tricks*:**

If the goods your employee receives are actually part of what your business makes then the gross up rate is only 1.8692.

If the value of the fringe benefit before grossing up is less than $2,000 it does not need to be reported on the employee's PAYG summary.

If an employee's mobile phone is used more than 50% for business purposes then the whole amount of the mobile bill can be paid with no FBT arising. If the mobile has PDA capabilities this can still apply.

Infrequent (ie less than 20) and irregular fringe benefits are not taxable and not reportable if they cost less than $300. Note they cannot be part of a salary sacrifice arrangement and are not tax deductible to the employer if they are entertainment.

Useful Web Pages

FBT Calculations

The ATO has a couple of useful calculators on its site.
At www.ato.gov.au/distributor/asp?doc=content/content/37354.htm there is a calculator that will work out the FBT payable on a car using either the statutory (formula) method or the operating cost (log book) method. There is also a calculator to exempt and rebatable employees at www.ato.gov.au/distributor/asp?doc=content/content/38383.htm

Employer Provided Cars and Log Books

Whether you are an employer providing cars or an employee whose wages package is reduced by the cost of your employer providing you with a car, if it is used for business purposes you should consider a log book.

FBT is payable by your employer on the value to you of receiving the benefit of the car. In most circumstances the formula method is used to calculate that value and certainly is tax effective if there is very little business use of the car. The formula method works on the basis that the more kilometres the car does the higher percentage the ATO assumes it to be used for business. This works against a car used primarily for business in a city where the amount of kilometres travelled is not that great.

For example a car that cost $21,334, travelled 18,000 kilometres for the year with running costs including lease payments of $7,656, used 78% for business would have a taxable value for FBT purpose of $4,266.80 under the formula method compared with $1,684.39 under the actual cost (log book method). Considering the fringe benefits tax is nearly the same as the taxable value, the log book is a huge tax saving.

A log book must be kept for 12 consecutive weeks and must include speedo readings for each day, the name of the driver, the date, the reason for the journey, the name of the person making the entry and the date the entry was made. FBT returns are due in April so now is the time to start a log book if you want to have the option of using either method.

There are more details on how fringe benefits is calculated in our FBT booklet in the freebies section of the web site. While you are there read up on how an employee contribution can further reduce the cost to the employer of providing the car if the employee is not in the maximum tax bracket.

Miners' Salary Sacrificed Cars

While this article has come about after discussions with miners on the areas of salary sacrificing their vehicles that they don't understand, it may also be of interest and in most cases will apply to all employees who salary sacrifice cars. Caution, when applying this article, as employers may have different policies or terminology, all we can cover here is how the law works and generally how employers would apply it to your package.

Your employer will reduce your salary package by the cost to it of providing you with a vehicle. Obviously they do not know just how much this will be so they work on an estimate and at some time during the arrangement, maybe even on an annual basis, you will be asked to top up the kitty if your running expenses exceed the estimate. This top up also comes out of before tax dollars.

As part of the process of providing you with the vehicle you will be asked to estimate the kilometres you expect to travel. This will help your employer estimate how high to set the kitty and also how much FBT they have to pay.

Fringe Benefits Tax (FBT) can be calculated on an actual cost method (covered in our FBT booklet) or on the formula method. The latter giving the best result when the vehicle is mainly used for private purposes. Unless otherwise arranged your salary sacrifice package will have the FBT calculated on the formula method. The formula method assumes that the more kilometres you travel the higher the ratio of business kilometres to private kilometres so the less FBT that is payable. This is a good reason for the salary sacrificed car to be the main vehicle used and certainly the one driven by the family member travelling the furthest. There is no requirement that the salary sacrificed vehicle be driven by the person who's wages pay for it. Of course more kilometres will mean that you may be asked to kick more into the kitty but this is only to cover the extra fuel etc, it comes out of before tax dollars and is exclusive of GST so a lot cheaper than putting fuel in another car you own. Whatever you do don't try and keep the kilometres down to meet your estimate. To the contrary don't hesitate to ring your employer and ask them to increase the kilometres you intend to travel. There may not even be any increase in the deduction from your salary because the reduced FBT may offset the extra fuel costs if you were close to a threshold. The current thresholds are below, the percentage quoted is applied to the purchase price of the car to work out the value of the benefit you received under the formula method:

Kilometres Travelled	%	Kilometres Travelled	%
Less than 15,000	26%	25,000 to 40,000	11%
15,000 to 24,999	20%	Over 40,000	7%

But as part of a new incentive to discourage people from driving their vehicles to increase the kilometres to reduce their FBT liability, the Government will slowly change these all to 20%. It only applies to new cars purchased. Starting from 10th May, 2011 the rate will change to 20% for new cars that do less than 25,000km. The other rates will change as follows

Purchased Between 10 May 2011 and 31 March 2012	%	Purchased Between 1 April 2012 and 31 March 2013	%
25,000 to 40,000	14%	25,000 to 40,000	17 %
Over 40,000	10%	Over 40,000	13 %
Purchased between 1 April 2013 and 31 March 2014	**%**		
25,000 to 40,000	20%		
Over 40,000	17%		

By the FBT year beginning 1st April 2014 all motor vehicles, regardless of the amount of kilometres travelled, will be taxed at the same 20% rate. The actual cost/log book method can still be used, which will calculate the FBT payable in strict accordance with the ratio of business to private use of the vehicle.

It is the original GST inclusive price of the vehicle is multiplied by the relevant percentage above to determine the taxable value of the benefit you receive. Note if the car has been owned by the employer or an associate of the employer for more than 4 FBT years then only two thirds of the original cost is used to calculate the taxable benefit.

The value of this benefit is grossed up and taxed as if you were in the maximum tax bracket. In simple terms this means that the value of the benefit is almost doubled then multiplied by the maximum tax rate of 46.5% to calculate the amount of FBT your employer has to pay. Your employer will no doubt reduce your salary package by the amount of FBT it has to pay.

The maximum tax rate cuts in when your income exceeds $180,000 so if you are not in this bracket then you should make an employee contribution from your after tax dollars of the amount calculated by multiplying the percentage above by the value of the vehicle. This effectively means that the taxable portion of the arrangement is only taxed at your lower tax rate rather than the maximum 46.5%.

At this point you may be feeling that there is a lot more money going out than the car is worth. This only appears to be the case because most people kid themselves just how much it costs to run their car and of course this is a brand new car and the purchase costs are factored into the package. If you don't think you can afford the package then you certainly can't afford a new car any other way. Further, if you don't want a new car then salary packaging is not for you anyway. But if you are going to buy a new car this is an excellent way to cover the costs out of before tax dollars.

The idea is to keep the car in the salary sacrifice arrangement for as long as possible to keep your running costs coming out of before tax dollars and net of GST. Accordingly, if you have the opportunity to re lease the residual payout, do so. However the package is presented to you, look for the combination of lease arrangements that will give you the longest term even if it means taking a slightly short first lease so the vehicle is still young enough to re-lease when the first lease expires.

A trap to watch out for is exceeding the luxury car limit, which has been $57,180 for the last 2 years. If your vehicle is close to this get professional advice because the way the GST applies to this test is quite complicated. If your vehicle exceeds the luxury car limit there are all sorts of disincentives such as not all of the lease payments being able to come out of before tax dollars and some of the GST not being claimable. So it is well worth staying under this limit.

Reducing Reportable Fringe Benefits

While the reportable fringe benefit amount that appears on your PAYG Summary (group certificate) does not affect the amount of tax you pay it is counted as your income in lots of other ways. For example to gauge your entitlement to Centrelink payments and the superannuation co contribution it can also increase your income to the extent you may have to pay the Medicare Levy surcharge.

Here is a nifty little trick if you are salary sacrificing for a car and using the formula method to calculate the amount of benefit you receive. In most cases the value of a car fringe benefit is calculated by multiplying the

cost price by 20% this is what the ATO consider to be the value to you of receiving the use of the car. This amount is then "grossed" up to reflect how much someone in the maximum tax bracket would have to earn to have that value after they paid tax at the maximum rate. For example:
Purchase price of car $20,000 (includes GST) x 20% = $4,000 x 1.8692 to gross up = $7,477 this is the amount that will appear in your PAYG summary. In return for this you receive the use of a car with all the running costs paid by your employer and your employer is entitled to a tax deduction for all of the car expenses even if it is 100% private use. This means that your motor vehicle costs are tax free other then the FBT you employer pays, and your employer receives a full GST credit for the expenses. So even with $7,477 appearing in the reportable fringe benefits box this is usually a good deal.

If you are in a low tax bracket the deal can be made even better by making an employee contribution out of your after tax pay. If you were to pay your employer $4,000 each year to receive the benefit of the vehicle, your employer would not have to pay any FBT at the maximum rate and there would be no amount appearing in your reportable fringe benefits box. This effectively means that the benefit is taxed at your marginal tax rate rather than the maximum tax rate.

There is another and possibly more effective way of achieving this, especially if once you receive your new employer provided car you will sell off your old car. Consider paying the money you receive from the sale of your old car to your employer as a payment towards the new one. Or consider allowing your employer to use you old car as a trade in.

If in the example above your trade in reduced the purchase price of the new car to $10,000 then the taxable value would only be $2,000. If you reportable fringe benefits before grossing up are $2,000 or less then your employer does not have to put them in the reportable fringe benefits box. So Centrelink never needs to know that your employer is providing you with a car and covering all its running costs.

Note this only happens if the employee provides the trade in. If the trade in is provided by the employer then it is ignored and the price before allowance for the trade is the cost price for FBT purposes.

This idea may be great if you are employed through your own trust or company because you don't have to worry that your employer could fire you in a week's time and take back the car, profiting nicely from your generosity. If instead of your employer buying the car, the car is leased under a novated lease arrangement then you effectively own the car but your employer makes the lease payments.

For employers, this strategy is particularly useful when employing sole parents who maybe working part time and still qualify for some sole parent pension. If you give your part time employees school friendly hours and a fully paid for car that does not affect their pension you will have a very loyal employee. Something that is important in this era of high employment.

So what makes up the cost price of the vehicle? Generally it is the price paid by the employer for the car. Accordingly, it is after all discounts are taken into account even factory rebates paid later. But it is not reduced for a trade in unless that trade in is supplied by the employee. It includes GST and any applicable luxury car tax. The price includes all dealer deliver charges but does not include payment for an extended warranty.

Christmas parties

To minimise their Fringe Benefits Tax liability many employers are trying to keep down the cost of their staff Christmas Party. If the party costs more than $300 per head the cost will be subject to FBT, less than $300 and it is an exempt fringe benefit. But the exempt benefit is not the most tax effective option if the employer is in the maximum tax bracket.

FBT is calculated at the maximum tax rate of 46.5% so on the surface it would seem well worth avoiding. Christmas parties are entertainment and entertainment is not tax deductible. But a Christmas party is not entertainment if it is a fringe benefit. If the party qualifies as a fringe benefit ie cost more than $300 per employee it is tax deductible and so is the FBT that has to be paid. If the party qualifies as an exempt fringe benefit because it cost less than $300 per employee, then the party is not tax deductible to the employer because it is entertainment. By the same argument a GST input credit can only be claimed for a Christmas Party to which FBT applies. That is a GST credit can only be claimed if the party cost more than $300 per employee. By the way the $300 threshold is the GST inclusive amount.

Most taxpayers are in the 31.5 tax bracket so it is worth considering giving employees a Christmas bonus instead. This would be taxed at their normal rates and tax deductible to their employer. They can then pay for their own Christmas party.

Be warned, there are many other twists and turns regarding Christmas Parties and FBT, this is just one trap. There are also issues with where it is held. It really is worth discussing your Christmas plans with your accountant first.

Temporary Reprieve for LAFHA Changes

Due to the short notice of the changes to the Living Away From Home Allowance (LAFHA) announced in May and the draft legislation not even being available until the 28th June, 2012 the government has agreed to delay the introduction of changes to the Living Away From Home Allowance concessions until 1st October, 2012.

The following are the major points in the draft:

The 12 month Rule – The allowance can only be paid for the first 12 months that the employee lives away from home. This 12 month period does not start until 1st October, 2012 even if the employee begins living away from home before then. When the employee returns home for holidays etc this will not restart the 12 month clock but the time they are at home will not count towards the 12 months, yet they will still be entitled to a tax deduction for any accommodation costs they incur (back at their workplace) while at home but not food.

Taxable food component – Is the portion of the food component of the allowance that is considered to cover normal food costs so does not qualify for concessional treatment. This will now be held at $42 per week for people over 12 years of age and $21 per week for children. Previously, employers could simply reduce the amount they paid by this amount and no FBT would apply. It is now intended that whatever portion of the allowance that is paid for food will be deemed to include this component and the employer will have to pay FBT on it. Basically, forcing an employer to pay a taxable amount before they can pay an exempt amount. Hopefully this problem will be able to be solved by an employee contribution. Note employees must also give their employer a "deductible food and drink expense declaration".

Transitional Rule – Agreements that were in place on 8th May, 2012 remain unaffected until 1st July, 2014 providing they are not varied or renewed. A variation could simply be an increase in pay rate.

Taxable to Employees – Any LAFHA received, other than the food component, will be taxable income to the employee for which they will have to produce receipts to make claims for accommodation etc. In the case of food the ATO will issue guidelines on what is reasonable and receipts will only be necessary, for all food expenses, if the claim is for more than these reasonable amounts.

Opportunity When not Receiving LAFHA – It will no longer be a requirement that your employer pay a LAFHA to qualify for this concession. All employees that meet the requirements of living away from home while maintaining another home in Australia will qualify to claim their costs, in the first 12 months, if they have the necessary receipts.

Maintaining Another Home in Australia – Of course this means no LAFHA concessions for people coming to Australia to work from overseas. Also people who lived with their parents etc before relocating will not be entitled. Maintaining another home means owning it or leasing it in your name or your spouse's name. It cannot be rented out while you are away but if you had boarder that was living with you before you relocated then they can continue to live there and you will still qualify.

Mining Accommodation – These changes will also affect employer provided meals and accommodation but this will only be of concern to the employer not the employee. The employer will only be able to exempt from FBT the portion of the costs that the employee would have been able to deduct if they were paid an allowance. This of course means no concessions after 12 months. It appears the remote area housing concessions will not be changed. The LAFHA concessions are not applicable to fly in fly out workers.

Now before you go acting on this remember, it is not through parliament yet, so anything could happen.

Time To Reconsider Your Salary Package

For the 2012/13 and 2013/2014 financial years people 50 years of age or over will no longer be entitled to a tax deduction for contributions to superannuation funds that exceed $25,000. If you have been salary sacrificing into superannuation and in particular if you are involved in a transition to retirement strategy it is important that you completely re-evaluate your strategy in the very near future.

Ask BAN TACS

For $79.95 at Ask BAN TACS, www.bantacs.com.au/ask-bantacs.php, you can have your questions regarding Capital Gains Tax, Rental Properties and Work Related Expenses answered. We will include ATO references to support our conclusion. There is also a notice board where some askbantac users have generously allowed their question and answer to be published. Lots of good real life information.

More Information

Please make sure you continue to keep your knowledge up to date by subscribe to our Newsflash reminder. There are many other booklets available on our web site http://www.bantacs.com.au/booklets.php in fact the whole web site is full of useful information so also have a look around under topics.

How to Make Sure Your Next Property Is a Good Investment

- Do you really know how much the property is going to cost you to hold?
- What name should the property be purchased in?
- Will this property fit your investment strategy and goals?
- What does the contract say about GST?
- How does the price compare with similar sales in the area?
- If it is negatively geared, how much capital growth is required before you breakeven?
- Do you know what records you need to keep and how?
- Are your financing arrangements maximising your tax deductions?
- What happens if interest rates rise?

......and the list goes on!
To ensure you don't make a costly mistake with your next purchase make sure you see a BAN TACS Accountant before you sign

Disclaimer: The information is presented in summary form and could be out of date before you read it. It is only intended only to draw your attention to issues you should further discuss with your accountant. Please do not act on this information without further consultation. We disclaim any responsibility for actions taken on the above without further advice as to your particular circumstances.