

# TAX BULLETIN

AN UPDATE PUBLICATION  
FOR OUR CLIENTS

25 March 2011

## FBT YEAR END 2011

The fringe benefits tax (“FBT”) year ends on 31 March 2011. As such, it is timely for employers to start planning the preparation of their annual return. The following bulletin provides some year-end preparation tips and in addition, focuses on some of the more common problem areas associated with FBT.

### FBT Registration and FBT Return Lodgement Dates

If an employer provides fringe benefits to their employees during the year, they typically must pay FBT and lodge an FBT return with the Australian Taxation Office (“ATO”). Employers providing benefits for the first time need to register for FBT by completing the registration form available on the ATO website ([www.ato.gov.au](http://www.ato.gov.au)). The FBT return declares fringe benefits provided during the period 1 April 2010 – 31 March 2011. Once registered, employers lodge FBT returns by 21 May 2011 (or 28 May 2011 via Tax Agent).

### Preparing for Year End

- For cars valued using the statutory formula method, kms travelled prior to 31 March should be maximised to try and reach the next km threshold level (15,000 km, 25,000 km or 40,001 km). The statutory fraction used in the taxable value calculation decreases at each km level, thereby lowering the corresponding FBT liability.
- Where possible, car fringe benefits should be swapped between employees to maximise km. Car fringe benefits shared under an employer arrangement are not reportable on employee payment summaries irrespective of the use of the car by each employee. Records of car sharing arrangements should be kept.
- Employers should request odometer readings for each car fringe benefit on 31 March 2011.
- Employers should commence collation of receipts/records relating to any unreimbursed employee expenditure incurred in respect of car fringe benefit (eg fuel, car wash, repairs, insurance, registration, etc). These GST inclusive amounts can be used to lower the taxable value of the car fringe benefit.
- Employers should start reviewing salary packages/benefit policies and general ledger accounts in order identify potential benefits.
- Receipts relating to any other employee expenditure associated with the provision of benefits should start to be collected. These exercises all take time, so it is best for employers to start FBT administration early before the lodgement deadline arrives.

### Preparing FBT Returns

Some of the more common problem areas encountered when reviewing client FBT returns and working papers include:



## Car Fringe Benefits

- Ensure the car is “held” by the employer and that documentation is on file to substantiate this arrangement (eg owned, hire-purchased in employer’s name, leased/novated lease). Cars that are hire-purchased or leased in the employee’s name are fully taxable expense payment fringe benefits with limited scope to reduce the taxable value via the otherwise deductible rule.
- Review all car acquisition documentation to ensure the base value is not overstated. The base value is generally GST and dealer delivery cost inclusive, but exclusive of stamp duty and registration costs.
- Ensure that all novated leased cars have valid novation agreements with the current employer. Review the base value of all novated vehicles – if a new employee brought a car arrangement from an unrelated employer, the market value (lower value) at time of transfer can be used in the taxable value calculation of the car.
- A one-third reduction in the base value can only apply if the car has been held for at least four years prior to commencement of the applicable FBT year (i.e before 1 April 2006 for the 2010/2011 year).
- When using the statutory formula method, kms should only be annualised where a car is either new or disposed of during 2010/2011. Where a car fringe benefit is held for the full FBT year and is unavailable for private use at certain times, records should be kept of the number of days and this information is used when calculating the taxable value of the car – Do not annualise the km of the car in this instance.
- All employee contributions towards the car fringe benefit and car expenses should be accounted for and substantiated to reduce the taxable value of the benefit. These include cash contributions, indirect third party payments by the employee (eg the payment of fuel and other car expenses) or journal entry arrangements.
- Where the operating cost method is used to value the benefit, valid logbooks must be obtained from employees (i.e. made within last 5 years and covering a minimum 12 week period).
- Where possible, employers should compare the taxable value for a car fringe benefit using both valuation methods (statutory and operating cost) in order to achieve the lowest value. For high value/luxury cars the operating cost formula may, in certain circumstances, result in a lower taxable value than that achieved by the statutory formula method, even where there is 100% private use.
- If any vehicles have been treated as FBT exempt in the past, employers should review the basis for this treatment. Do not assume utes and panel vans are automatically exempt. There are conditions relating to use that must be met in order for this exemption to apply. Such vehicles are only exempt if private use by employees (other than minor, infrequent and irregular use) is strictly prohibited. Generally this means salary packaged utes, or similar vehicles, are not exempt from FBT.
- Do not include E-tags/road tolls as car expenses, these are expense payment or residual fringe benefits and should be valued accordingly.



## Entertainment Fringe Benefits

- Non-meal entertainment (eg recreation) should be classified and valued separately from meal entertainment benefits.
- Approach meal entertainment with fresh eyes this year and investigate whether a different valuation method may result in FBT savings. Options available for meal entertainment include using the actual approach (i.e. classifying and valuing benefits provided to employees and their associates as expense, residual or property benefits, etc) or making an election to use the 50/50 split method or 12 week register method. There are further concessions available under each valuation methodology which could reduce the FBT associated with these benefits.
- If using the 50/50 split method for meal entertainment, you must include 50% of all GST inclusive meal entertainment costs (exclude all recreation costs) including those that would otherwise be exempt as minor benefits or property consumed by employees on business premises.
- Due to the increase in the minor benefits threshold to \$300, the actual method could now produce the lowest cost outcome. Don't just assume the 50/50 split method is better.

## Minor Benefits

- Most employers are aware that minor benefits are exempt from FBT. A benefit will only be a minor benefit if the following conditions are satisfied:
  - The GST inclusive value of the benefit is less than \$300;
  - The benefit is provided irregularly and infrequently; and
  - In the circumstances, it is unreasonable to treat the benefit as a taxable fringe benefit.

The minor benefits exemption is particularly relevant for entertainment benefits and other ad hoc benefits (e.g. gift vouchers, birthday gifts) which are not tied to performance and do not form part of an employee's formal remuneration agreement.

## Other

- Travel diaries are to be kept for travel of greater than five nights as follows:
  - All overseas travel regardless of purpose; or
  - For domestic travel where trip is not solely for business purposes.

If travel diaries are not kept, the ATO deems all travel to be subject to FBT regardless of business content.

- Unless there is a statutory valuation method allowed, the taxable value of the benefit should always be the GST inclusive value, where applicable.
- Ensure benefits are correctly classified as either Type 1 or Type 2. A Type 1 benefit is one where the provider is entitled to claim GST input tax credits in relation to the benefit whereas for a Type 2 benefit there is no such entitlement. The fact that input tax credits are not claimed (e.g. no tax invoice available) is irrelevant; the key consideration is whether the provider would have been entitled to claim them.



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- Employers should familiarise themselves with the wide range of concessions and exemptions that are available under the FBT provisions. Depending upon the industry in which an employer operates, where the work-site is located, the type of work undertaken, the goods or services provided by the employer, there may be scope to value benefits concessionally and further reduce any FBT payable
- Employers should ensure they have all supporting documentation in place prior to the lodgement of the FBT return. For example – signed declarations, log books and travel diaries from employees, all employer elections signed and on file, etc.
- Benefits provided by employers, their associates or under an arrangement with a third party must be accounted for in the employer's FBT return.

## **ATO Audit Activities**

- Be aware the ATO is currently focussing on the following FBT areas in their audit activities:
  - The treatment of car fringe benefits;
  - Benefits provided by employers operating in the property industry;
  - Employers that have ceased to lodge FBT returns but continue to employ;
  - Employers that provide "living away from home allowances"; and
  - The treatment of corporate boxes/meal entertainment benefits.

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## FURTHER INFORMATION

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