

## FRINGE BENEFITS TAX

As an employer, it's important to understand the concept of fringe benefits tax (FBT) and how it could be affecting your business. FBT is a tax that applies to certain "non-cash" benefits that you provide to your employees, in addition to their salary or wages. These benefits may include things like company cars, health insurance, and even gym memberships.

FBT is calculated at a tax rate of 47% on the taxable value of the fringe benefit that you provide to your employees.

### What are fringe benefits?

Fringe benefits are benefits that employees receive from their employer in addition to their regular salary or wages. These benefits are generally non-cash benefits but can also include cash payments that are not considered part of the employee's salary. Fringe benefits can include a wide range of benefits, such as:

- Cars made available for private use
- Health and life insurances
- Gym memberships
- Entertainment expenses
- Car parking benefits

Fringe benefits can be an important part of an employee's compensation package, helping to attract and retain talented employees. However, employers must be aware of the tax implications of providing fringe benefits, including the possibility of paying fringe benefits tax.

### What is the ATO looking for?

The Australian Taxation Office (ATO) has a focus on FBT compliance, particularly in relation to employers who may be providing benefits to employees that are not being properly reported or assessed for tax purposes. Some common areas of FBT compliance that the ATO is currently focusing on include:

- Motor Vehicles and how employers are valuing and reporting the use of motor vehicles provided to employees.
- Entertainment and Travel to ensure that these benefits are being properly assessed for tax purposes where there is a private or other entertainment component.

## How can you minimise your FBT Liability?

The best way to minimise your FBT liability and provide tax effective salary packaging for your employees, is to focus on those benefits which are either concessionally taxed or tax exempt.

An effective salary package allows the employee to receive the benefit as a pre-tax reduction of their wage, thereby increasing their after-tax remuneration package.

Some common FBT exemptions include:

- Work-related items: such as laptops, mobile phones, and tools of trade are exempt from FBT if they are primarily used for work-related purposes.
- Minor benefits: with a value of \$300 or less, and are provided on an infrequent and irregular basis.
- Selected health-related benefits: provided to employees that directly relate to their health or well-being, such as health screenings and flu vaccinations.
- Employee Relocation expenses: such as temporary accommodation and removalist costs, may be exempt from FBT under certain circumstances.
- Electric vehicles: any vehicle benefits related to a battery or plug-in hybrid vehicle that was purchased after 1 July 2022, and was not subject to luxury car tax may be exempt from FBT.

It is important to note that there are specific rules and requirements that you must meet in order to utilise these exemptions, and they may be subject to certain conditions and limitations.

As the ATO increases its focus on FBT, it is important to review your business' circumstances, and what benefits you may be providing to your employees so that you can ascertain what steps can be taken to ensure that you are meeting your FBT obligations.

## MOTOR VEHICLE BENEFITS

A vehicle fringe benefit arises when a business allows an employee or owner to access a company owned vehicle for private use. The value of the benefit is calculated as the cost of the vehicle and its related running costs multiplied by the relevant business use percentage. A valid logbook is required to verify the business use percentage. Although keeping a logbook can be tedious, it will help minimise the value of the benefit provided by the company, and in turn, may reduce any tax payable on this benefit. A valid logbook requires the following:

1. **Logbook period:** The logbook must cover a continuous period of at least 12 weeks. You can choose any 12-week period during the income year, as long as it is representative of your usual pattern of use. Once you have completed a logbook, it will remain valid for 5 years, unless your pattern of use changes.
2. **Vehicle details:** including the make, model, registration number, engine capacity and the date you started using the vehicle for business purposes.
3. **Logbook period:** You must record the start and end date of the logbook period.
4. **Kilometres travelled:** You must record the total number of kilometres travelled by the vehicle during the logbook period.
5. **Business-use kilometres:** You must record the number of kilometres travelled for each business trip during the logbook period, including the date, start and finish odometer readings and reason for the trip.

We recommend sending us a copy of your completed logbook for us to retain in the event of an ATO review. If a valid logbook cannot be provided, the ATO will apply 100% private use to the motor vehicle benefit. There are now several ATO approved apps available that can be used to record your logbook. A few of the top rated apps are Driversnote, GOFAR Logbook App and Vehicle Logger.

A motor vehicle benefit can be exempt where; the motor vehicle is classified as an exempt vehicle **and** the employee's private use is limited to:

- travel between home and work
- travel that is incidental to work-related travel; and
- non-work-related use that is minor, infrequent and irregular

Vehicles are considered exempt if they are classified as a commercial vehicle, described below.

- Single cab utes – single cab utility trucks qualify for the exemption.
- Dual cab utes – dual cabs only qualify if they are not designed for the principal purpose of carrying passengers. Please contact our office for details of this calculation.
- Four-wheel drive vehicles – four-wheel drives will qualify if they are designed to carry a load of one tonne or more, designed to carry more than eight passengers or are not designed for the principal purpose of carrying passengers.
- Panel van – panel vans qualify for the work-related use exemption.
- Other road vehicle – other road vehicles will qualify for the exemption if they are designed to carry a load of one tonne or more or more than eight passengers.

If you have a business owned car or ute, you are required to record a vehicle's odometer reading on the 31st of March each year. In this regard, we will be sending out a system generated text message (SMS) or email requesting a reply with your car's registration number and odometer reading. This can be a text reply or photo, whichever is easiest. We will then record this information for you in case it is needed at a later stage. Where we can, this message will be sent to all drivers on our system who we know use a vehicle owned by a business.

### ENTERTAINMENT BENEFITS

Entertainment benefits refer to the provision of goods or services for the enjoyment of employees and/or their associates. This can be by the way of recreation e.g. tickets to concerts, sporting events, or movies, as well as meal entertainment e.g. long lunches, drinks, and accommodation provided at work events or conferences.

There are a number of circumstances where the provision of meals to staff does not constitute entertainment. When meals exceed certain thresholds, or involve alcohol, they are less likely to be considered sustenance, and exempt from FBT, and are more likely to be deemed meal entertainment. Two of the main exemptions that can be applied to minimise the FBT liability on entertainment benefits are the minor benefits exemption and the property benefit exemption.

Under the property benefit exemption, any food and/or drink provided to, and consumed by, a current employee, on a working day, on the business premises, will be considered an exempt benefit. This exemption does not apply to associates (i.e. partners) of employees. For example, the cost of functions held on office premises will be exempt from FBT for all current employees, regardless of their cost.

Under the minor and infrequent benefit exemption, employers can provide "minor benefits" to their employees, which are both:

- Less than \$300 per employee per benefit ('minor'); and
- Not provided regularly, but on an irregular or occasional basis ('infrequent').

If the benefit satisfies either of these exemptions, then you are not entitled to claim an income tax deduction for the expense, nor claim a GST input tax credit.

FBT is a complicated area of tax, with numerous rules and exemptions that can apply depending on your circumstances. We encourage you to contact us, so that we can assist you assess any FBT risks that may impact your business.