



Australian Government  
Australian Taxation Office

# Administration of Fringe Benefits Tax



Better Practice Guide

February 2006



## Foreword

Fringe Benefits Tax (FBT) is a tax that impacts Australian Government entities in two ways -

- a) entities are required to administer their FBT liabilities in a manner that enables full compliance with Australian tax laws, and
- b) entities are also required to determine and accurately report reportable fringe benefit amounts (RFBA) for individual employees.

This Guide outlines a number of better practices for the administration of FBT and provides practical guidance on managing a range of benefits commonly provided by Australian Government entities. This Guide has not been prepared as a technical reference on FBT. As such, it is important that it is used in conjunction with, not as a substitute for, FBT legislation and Tax Office guidance.

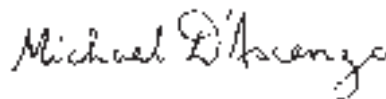
Part 1 of the Guide is designed to assist Chief Executives, Chief Financial Officers (CFOs) and FBT and risk managers to review existing governance and control arrangements in their entities and, where necessary, make improvements to them. Part 2 is designed to assist FBT Managers, and other staff who have specific responsibilities in FBT administration, in effectively meeting their entity's FBT obligations.

Where entities require further advice or have compliance cost issues they should contact the Tax Office.

The assistance of a number of Australian government entities during the preparation of the Guide is appreciated. The valuable assistance provided by Ascent who were employed to assist in preparing this Guide is also acknowledged.



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For technical questions please contact the Tax Office. Other questions or comments on the Guide may be referred to the ANAO at the address below:

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# INTRODUCTION

The ANAO's Audit Report No. 49 2004-05 *Administration of Fringe Benefits Tax* identified that a number of processes relating to the administration of FBT in Australian Government entities could be improved. This Guide has been produced to assist entities to administer their FBT obligations.

While this Guide is directed at Australian Government entities, the principles and considerations outlined may be applicable to other public sector and private sector entities.

Guidance provided by the Tax Office and professional bodies generally focuses on the legislative requirements for the taxation of fringe benefits. This Guide is designed to complement, not replace, such guidance material. It provides practical guidance and tools to assist in the management of FBT by Australian Government entities. In particular, this Guide should be read in conjunction with technical guidance provided by the Tax Office, in the *Fringe Benefits Tax: A Guide for Employers* (NAT 1054) at [www.ato.gov.au](http://www.ato.gov.au).

It is important that all Australian Government entities fully comply with FBT legislative requirements and do so in an efficient and cost-effective manner. Entities are encouraged to use this Guide to review their existing FBT policies and practices and, where necessary, make improvements to them.

As a result of the inherent complexities associated with some aspects of FBT legislative requirements, unless effectively managed, the administrative cost involved in meeting an entity's FBT responsibilities can be considerable and may exceed the FBT liability of the entity. FBT administration presents a number of risks that need to be identified and assessed and, where appropriate, risk treatments implemented to manage them.

FBT impacts many work areas within entities and requires a broad organisational approach to adequately manage it. FBT also has direct implications for many employees, as Reportable Fringe Benefit Amounts (RFBA) need to be disclosed on individual payment summaries. Therefore, it is particularly important that entities keep employees fully informed of the possible RFBA implications of receiving fringe benefits.

## Relevant legislation

The FBT legislation comprises the following:

- *Fringe Benefits Tax Assessment Act 1986* which establishes the rules for assessment and collection of FBT
- *Fringe Benefits Tax Act 1986* that imposes FBT on the taxable value of the fringe benefits. Any change to the rate of FBT is effected by amending this Act
- *Fringe Benefits Tax (Application to the Commonwealth) Act 1986* which applies the FBT laws to Commonwealth Government authorities and departments
- *Fringe Benefits Tax Regulations 1992*, and
- *Fringe Benefits Tax (Application to the Commonwealth) Regulations*.

## Structure of the Guide

The Guide is divided into two parts:

|  |   |
|--|---|
| <b>Part 1 – Better practices for the administration of FBT</b>       | Outlines five better practices to assist entities better administer their FBT obligations.        |
| <b>Part 2 – Better practices for managing specific benefit types</b> | Outlines the legislative basis for FBT and provides guidance for managing specific benefit types. |

Part 1 of the Guide is structured around five better practices for the administration of FBT:



1. Identify FBT risks
2. Establish and maintain an effective FBT control environment
3. Plan each year's FBT return
4. Communicate with stakeholders, and
5. Prepare and review the FBT return and supporting processes.

As such, this Part of the Guide is designed to meet the needs of Chief Executives, Chief Financial Officers, FBT and risk managers who are responsible for governance and control arrangements including implementing appropriate risk and control arrangements and managing resource requirements.

Each better practice includes a documentation checklist that provides examples of practices that might indicate the existence of better practice.

Part 2 of the Guide outlines the legislative basis for FBT and provides guidance for managing specific benefit types. It outlines better practices that entities can adopt to assist in ensuring that the capture and reporting of information for each benefit type complies with legislative requirements and related Tax Office rulings and guidance material. This Part of the Guide is designed to assist FBT managers, and other staff who have specific FBT responsibilities such as human resources staff, fleet managers and others involved in the day-to-day administration of FBT, to effectively meet an entity's FBT obligations.

Throughout the Guide the following symbols appear:

|   |  |
|---|--|
|  | Legislative reference: these references are included to assist readers to locate relevant legislative references and associated Tax Office guidance. |
|  | Practical guidance: guidance is provided to assist in implementing better practices in the administration of FBT.                                    |



PART I

BETTER PRACTICES  
FOR THE  
ADMINISTRATION OF FBT

Better Practice Guide



# PART I. BETTER PRACTICES FOR THE ADMINISTRATION OF FBT

## Introduction

Entities should have the structure, processes and controls in place to enable them to meet their FBT obligations in an accurate, timely and cost-effective manner.

The requirement to report RFBA's on employee payment summaries means that the accuracy of the fringe benefit calculations can impact employees at a personal level. It is therefore particularly important that employees are fully informed about the possible implications of RFBA's.

This part of the Guide outlines five better practices relating to the administration of FBT. The way that entities apply these better practices will depend on their particular operating environment, particularly their structure and the number and type of benefits provided.

Entities are encouraged to review their existing policies and practices against the better practice framework outlined in Part 1 of this Guide.

## Better practice framework

**Identify FBT risks**

**Establish and maintain an effective FBT control environment**

**Plan each year's FBT return**

**Communicate with stakeholders**

**Prepare and review the FBT return and supporting processes**



## BETTER PRACTICE I IDENTIFY FBT RISKS



### Introduction

Risk management is an essential part of effective corporate governance within Australian Government entities.<sup>1</sup> FBT administration presents a number of risks that need to be identified and assessed and, where appropriate, have controls and risk treatments implemented to manage them. The impact that FBT has on employees means that entities need to consider FBT risks from both a legislative compliance and a personnel management perspective.

While for most Australian Government entities risks associated with FBT are unlikely to be significant in the context of all their strategic risks, better practice entities will include FBT risks into their broader operational risk framework. Well-managed FBT administration will generally provide entities with benefits such as:

- a) increased likelihood of complying with the FBT legislation
- b) complete and accurate capture of transactions that give rise to fringe benefits
- c) paying FBT instalments on time
- d) better management of employee expectations in relation to RFBAs
- e) accurate and timely reporting of RFBAs
- f) cost efficient processing, and
- g) being able to effectively manage Tax Office audit activity.

This section outlines some better practices that can assist entities in identifying and managing the risks associated with their FBT administration.

<sup>1</sup> The risk management process generally used in Australia is modelled on the Australian/New Zealand Standard AS/NZS 4360:2004 *Risk Management*. The Standard and Guidelines for managing risk in the Australian and New Zealand Public Sector contain more detail on the process of managing risk.

A Better Practice checklist is set out on page 7.

## Better practice steps

There are four key steps to establishing a better practice risk management framework for FBT administration. These steps are:

1. Establish context
2. Determine FBT objectives
3. Identify FBT risks
4. Evaluate risks and design controls.

### Step one: Establish context

Entities should consider FBT risk management as part of their overall risk management plan, recognising that FBT risks will, in many cases, not be significant in the context of an entity's strategic risk.

The first stage in the risk management process is to review the extent and nature of an entity's FBT obligations. The evaluation of relevant contextual information is likely to include the following:

- a) determining the relevant entity for FBT purposes (this may differ from the relevant entity for Pay As You Go (PAYG) or Goods and Services Tax (GST) purposes)
- b) determining the FBT status of the entity (for example, whether it is an income tax-exempt government body, a public hospital, a public ambulance service, or an entity subject to income tax). Australian Government entities (for example an Australian Government department, Executive Agency, Statutory Agency or an authority of the Commonwealth) are not charitable institutions or public benevolent institutions and are not eligible for a rebate under section 65J of the *Fringe Benefits Tax Assessment Act 1986* (FBTAA)
- c) reviewing the entity's structure to identify work area locations, disbursement of employees and any structural changes that have occurred during the FBT year
- d) developing a good understanding of the size, complexity, sophistication and resourcing of the FBT function, including whether processes are centralised or decentralised
- e) gaining an understanding of the number of common versus disparate systems and processes to provide an indication of the possible impacts on FBT data accuracy and efficiency of processing, and
- f) gaining an understanding of the benefits that are likely to be provided to employees (or their associates) of both the entity and associated entities, so as to determine the likely FBT obligations that may arise. For FBT purposes, Australian Government entities are associates of each other and are treated as if they are companies related to each other.<sup>2</sup> State and Territory Government entities are not associates of Australian Government entities for FBT purposes.

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<sup>2</sup> Refer section 4 *Fringe Benefits Tax (Application to the Commonwealth) Act 1986* and section 159(2) FBTAA.



Where an entity has a centralised FBT function (where on the job training is often easier and communications straightforward) and has a low number of transactions that attract FBT, it is likely that the risks relating to FBT administration will be assessed as low.

In a large, decentralised entity that provides a significant number of fringe benefits and requires co-ordination of FBT data from a number of work areas, FBT risks could be expected to be assessed as moderate or higher.

## Step two: Determine FBT objectives

Generally, entities will try to:

- a) comply with the FBT legislation in the most cost effective manner
- b) maintain effective communication with stakeholders, and
- c) maintain effective systems and processes.

## Step three: Identify FBT risks

In this step (sometimes referred to as a risk assessment), the entity needs to identify and analyse its FBT risks.

Better practice entities undertake a FBT risk assessment annually or when a restructure occurs which increases or decreases the functions undertaken by the entity. Generally, the most appropriate time for performing a detailed annual risk assessment is within a short time after lodging the FBT return, with a less detailed review being undertaken prior to lodging the FBT return. Undertaking an annual FBT risk assessment helps to keep information current and demonstrates that the entity is striving for continual improvement in managing its FBT obligations.

Responsibility for undertaking a FBT risk assessment should be assigned to someone with a good knowledge and understanding of FBT requirements. This could be the FBT Manager or other relevant staff such as the work area responsible for risk management. Where there is no specialist knowledge of FBT within the entity, consideration should be given to engaging external specialist advice to assist with the risk assessment.

When undertaking a FBT risk assessment, entities are encouraged to use this Guide to identify and apply better practice principles and processes tailored to their own particular circumstances.

### *Risk register*

Entities should document the results of the FBT risk assessment. Better practice entities maintain a FBT risk register in a form that is consistent with the entity's overall risk assessment framework. Such a register can assist in ensuring that risks are regularly reviewed and managed effectively.

## Step four: Evaluate risks and design controls


Evaluating FBT risk involves identifying a range of options for treating risk, assessing those options, and deciding the controls appropriate to the identified risks.

In the context of FBT administration, entities should consider a combination of preventative and detective controls for managing FBT risks. The level and complexity of these controls should be directly proportional to the assessment of the extent of the risk relating to FBT compliance.

As noted under step three, risk registers can be an effective means of documenting the assessment of FBT risks and associated risk treatments. Such a register can provide entities with a formal framework for the ongoing management of risks and, thus, a level of assurance that risks have been identified and are being managed appropriately.

### Documentation checklist – Better Practice 1 – Identify FBT risks

Maintaining records that include the following documentation will help to ensure entities have an adequate audit trail to support their approach to managing FBT risks.

|  | Documentation checklist      |
|---|------------------------------|
|   | FBT risk assessment overview |
|   | FBT detailed risk assessment |
|   | FBT risk register            |



## Better Practice checklist – Identify FBT risks

The following checklist can assist entities in applying a risk management framework to the administration of FBT.

The list is not intended to be prescriptive, as the measures taken by an individual entity to identify and manage its risks will depend upon its particular operating environment.

Entities that can answer ‘yes’ to most of these questions are likely to be using risk management practices effectively in relation to their FBT administration. If most of the answers are ‘no’, entities should consider whether there is an opportunity to review their existing FBT risk management practices.

| Indicators of better practice  | Yes/No |
|--|--------|
| 1. Has the entity formally assessed or reviewed its FBT risks in the last 12 months?   |        |
| 2. Have FBT risks been linked to existing controls and any gaps identified?  |        |
| 3. Is internally created documentation relating to the FBT treatment of significant items regularly reviewed to determine whether it remains relevant to current entity practice and is consistent with current legislation?   |        |
| 4. Are Tax Office private rulings regularly reviewed to determine whether they are in accordance with current legislation and address current entity practice?   |        |
| 5. Are FBT implications considered when making decisions regarding staff benefits, allowances, remuneration packages, Certified Agreements (CAs) and Australian Workplace Agreements (AWAs)?   |        |
| 6. Is there a process whereby FBT staff are advised of benefits being provided to new employees and new benefits being provided to current employees? (This is particularly important when entities have a large number of employees commence at once due to such things as an Administrative Arrangement Order).  |        |
| 7. Is there a process for FBT staff to be advised of employees ceasing employment or no longer receiving benefits? (This is important as it is usually more difficult to obtain information once an employee has left the entity, and can be even more difficult when a large number of employees leave together due to such things as an Administrative Arrangement Order). |        |



## BETTER PRACTICE 2 ESTABLISH AND MAINTAIN AN EFFECTIVE FBT CONTROL ENVIRONMENT



### Introduction

This section of the Guide sets out the four steps that a better practice entity should undertake to establish and maintain an effective internal control environment for FBT administration. These steps are:

1. Assign responsibility for the management of FBT
2. Establish, maintain and review policies and procedures
3. Establish, maintain and review information systems that support FBT administration, and
4. Identify and address the training needs of managers and staff.

[A Better Practice checklist is set out on page 19.](#)

### Step one: Assign responsibility for the management of FBT

To assist in ensuring that management arrangements in relation to FBT administration effectively meet the needs of the entity, responsibility for managing FBT should be assigned in a way that provides clear responsibilities and accountabilities. This becomes essential where structural changes occur, including where employees are transferred between entities, with more than one entity being responsible for accounting for the benefits provided to employees during the year.

Documenting FBT responsibilities can also assist entities to identify whether additional resources, training and/or procedures may be required.



Entities should clearly define and document the answers to these two questions:

- >> who carries *overall* managerial responsibility for FBT administration and compliance?
- >> who carries *specific* operational responsibility for FBT administration and compliance?

### **Overall responsibility**

For entities to implement an effective internal control structure, overall responsibility for FBT compliance should be formally assigned to a person or work area. If responsibility is unclear, there is a risk that there is a lack of ownership or accountability in relation to FBT, thus compromising the effective management of FBT administration.

In smaller entities, overall responsibility for FBT will typically be assigned to the CFO, and in larger entities it may be a Finance Manager or similar position. This person is often a qualified accountant who has a general understanding of taxation requirements, as well as the operational requirements of processing transactions and reporting obligations. This person is frequently assisted by a person responsible for managing FBT on a day-to-day basis - referred to in this Guide as the FBT Manager.

There may be a number of people responsible for various aspects of FBT administration including:

- a) work area managers who certify that fringe benefits provided by their work area have been recorded correctly
- b) salary packaging providers who certify that salary packaged fringe benefits have been correctly reported to the FBT Manager
- c) fleet providers who certify that vehicle data provided to the FBT Manager is correct
- d) the FBT Manager who certifies to the CFO or Finance Manager that technical issues have been addressed correctly and that the FBT data is accurate and complete, and
- e) the CFO or Finance Manager who certifies that the entity's FBT return is correct.

Entities should document key responsibilities for FBT management in formal job descriptions or similar documents. These responsibilities can then be linked to duty statements, annual work plans, performance plans and key performance indicators, as appropriate.

A record should also be kept of the officer who is registered with the Tax Office as the signatory on FBT returns and associated documentation. These records should be reviewed regularly so that FBT documentation is executed appropriately.

### **Specific FBT responsibilities**

In determining the allocation of specific responsibility for FBT compliance, entities will typically either:

- a) centralise responsibility for all FBT data collection, reporting and advice, usually within the finance function, or
- b) centralise responsibility for FBT advice and reporting within a central work area, and devolve responsibility for data collection to relevant line areas.

Better practice is to have FBT managed by the same person or group that manages the entity's GST and PAYG obligations. This enables the entity's total taxation obligations to be effectively co-ordinated and managed. For example, an election to use a particular method to value meal entertainment, such as the 50/50 method<sup>3</sup> impacts on the input tax credits that can be claimed in the Business Activity Statement.

Irrespective of how responsibility for FBT management is assigned, FBT Managers will generally rely on a number of staff throughout the entity to provide input into the FBT administration process, including:

- a) human resources managers who prepare AWAs and CAs
- b) managers who prepare fleet management contracts, salary packaging contracts, organise social functions or take other action that may result in a FBT liability
- c) staff responsible for FBT data collection
- d) data entry personnel who enter FBT transactions into information systems, and
- e) internal auditors who conduct periodic compliance reviews.

Staff with any responsibility for the administration of FBT should be provided with training commensurate with their level of responsibility and the level of complexity of the entity's FBT environment.

Staff responsible for FBT data collection should be provided with clear instructions on the FBT information they are to collect. Better practice is to provide guidance material and a data collection mechanism (such as standard spreadsheets or access to a commercial software package) so that information is collected in a standard form and can be readily collated as required.

### *Resourcing requirements*

The level of resources entities require to meet their FBT responsibilities depends on a number of factors including their size and complexity, the types of benefits they provide, whether salary packaging is managed in-house or by an external provider and whether the FBT function is managed centrally.

The larger and more complex the entity, the greater the need for a dedicated Tax Manager. Larger and more complex entities may also use other tax staff, finance staff or external contractors to assist with the preparation of the FBT return. Such entities should preferably have more than one staff member involved in managing FBT so that, in the event of staff absences or staff turnover, resources are available to meet short-term needs.

Smaller and less complex entities may have a number of staff who are involved in FBT processes throughout the year with FBT administration being only a small part of their overall responsibilities.

All entities should document FBT processes so that in the event of staff absence or staff turnover another staff member can prepare the FBT return.

<sup>3</sup> Further information on the operation of the 50/50 method can be found in the tax-exempt body entertainment section in Part 2 Section 2 of this Guide.

One of the issues facing Australian Government entities is finding staff who are adequately trained and have sufficient FBT knowledge and experience to perform a FBT Manager's role. This will impact on the structure used for managing FBT, and the extent of reliance placed on external service providers.

## Step two: Establish, maintain and review policies and procedures

Entities should have complete, up-to-date and documented policies and procedures that reflect FBT management responsibilities and provide adequate guidance to managers and staff on FBT transaction processing and reporting.

Policies and procedures should be written to meet the needs of various work areas, including:

- a) staff who input data into the entity's financial management information system (FMIS)
- b) staff who are responsible for collating FBT data for individual work areas
- c) managers who approve the provision of fringe benefits for individual work areas, and
- d) staff who are responsible for collating FBT information and preparing the FBT return.

Better practice entities will have documentation accessible by various work areas within the entity, as set out below.

| Documentation  | FBT staff | Work area staff | Work area managers | All entity staff |
|--|-----------|-----------------|--------------------|------------------|
| 1. Policy and procedural documents addressing FBT issues, for example, Chief Executive Instructions (CEIs) and associated policy documents | ✓         | ✓               | ✓                  | ✓                |
| 2. General FBT information including information on RFBA's   | ✓         | ✓               | ✓                  | ✓                |
| 3. Procedures manuals for staff involved in administering FBT  | ✓         | ✓               |                    |                  |
| 4. Detailed FBT information including private or class rulings issued by the Tax Office  | ✓         |                 |                    |                  |

1. The level of detail in CEIs and related policy documentation will depend on the structure of each entity's CEIs and associated policies and procedures. Including an entity's FBT requirements in CEIs or equivalent documents will help to raise the awareness of FBT within the entity and encourage the consideration of FBT when making entity decisions such as those relevant to remuneration and staff entitlements.
2. General FBT information should include a brief description of the types of benefits the entity generally provides, the treatment of these benefits (for example whether the benefit is a fringe benefit, or an exempt benefit) and details of what activities may result in a fringe benefit. It should also include details of the implications for employees of receiving RFBA's.
3. Procedure manuals should provide detailed guidance on how to plan for and prepare the entity's FBT return. The procedure manuals should be detailed enough so that, in the event of staff turnover, new staff members can readily understand and implement the required procedures. The FBT procedure manuals should be updated at least annually to help ensure that they reflect current legislative requirements and entity practices.
4. Detailed FBT information should include a description of each benefit type together with relevant legislative references, details of any internally prepared tax position papers and details of entity procedures for collecting and collating FBT data.

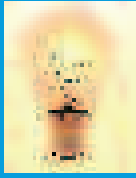
#### *Review of FBT policies and procedures*

All entities should review their policies and procedures on a regular basis to ensure that they reflect:

- a) current legislation
- b) Tax Office guidance
- c) entity requirements, and
- d) any improvements identified by a post-lodgment review.

Better practice is to have the policies and procedures reviewed by a person with a good knowledge of FBT, who is aware of legislative changes and changes in entity operations, such as the introduction of a new certified agreement.

FBT policy and procedures should be readily accessible by all relevant staff. For example, information that is likely to be used by all entity staff should be available on the entity's intranet or similar medium.



Policies and procedures that are posted on an entity's intranet should be dated so that users can determine whether information may have changed since they last reviewed the site. When substantive changes are made to the intranet site, users should be notified. As many users print information from the intranet and rely on the printed document, they need to be made aware that information has changed.

The policy and procedures should contain the details of the relevant contact officer(s) to whom staff can refer questions or seek further information.

The content of FBT guidelines placed on the intranet should be reviewed by the FBT Manager and such review should be documented.

### **Step three: Establish, maintain and review information systems that support FBT administration**

Entities that use internally developed systems for capturing data, such as spreadsheets, should ensure that controls are established to protect the integrity of the data entered. The information produced by the system should be reviewed to ensure that it is accurately calculating FBT information.

Many Australian Government entities use commercial FBT software products to produce FBT return information. Such products will automatically calculate the taxable value of certain benefits, for example, car fringe benefits, once the required information has been entered. This can reduce the risk of human error in relation to data integrity and the calculation process. Suppliers of commercial FBT software products generally provide annual updates incorporating any changes in legislation as part of their license arrangements. As commercial software products may not cater for all exemptions and concessions available to certain Australian Government entities, FBT staff should gain a full understanding of what information will be produced using these products.

Entities using either internally developed systems or commercial software products should review, on a sample basis, information produced for reasonableness and accuracy.

Entities should be satisfied that the data capture and collation methods used by the entity result in accurate information being collated and is in a form which enables FBT data to be easily incorporated into a FBT software product and/or internally developed spreadsheets, as required.

#### ***Structure of information systems***

Information system design and functionality should effectively support FBT administration.

Information systems should be structured so that FBT information can be extracted for any period. This enables quarterly or half-yearly data integrity reviews to be undertaken, if required, and also assists in providing information for financial reporting purposes.

#### ***Making effective use of information systems***

As previously mentioned, it is necessary for RFBAs to be disclosed on employee payment summaries. This can be a time consuming task unless systems and procedures are established to enable the timely capture and reporting of RFBAs. One of the ways that this can be done is through the configuration of the entity's information system. For example, better practice entities require details of expenditure on fringe benefit items to include the employee's name and AGS/ID number. This requires

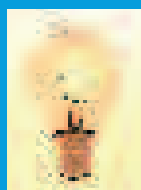


the expenditure item to be identified 'up front' as a fringe benefit item and for the employees' AGS/ID number to be available when expenditure details are entered into the entity's FMIS.

Accounts processing staff should be trained to recognise transactions that are likely to result in fringe benefits. This may require such staff to enter additional information in relation to particular accounts, but may enable information required for FBT purposes to be more easily obtained.

Account code descriptions for transactions that are likely to result in either a fringe benefit or an exempt benefit should be reviewed by FBT staff early in the FBT year to assist in ensuring that sufficient information is collected at the time of processing. For example, information in addition to the amount of the transaction, such as the employee name and AGS/ID number, or information regarding whether certain transactions relate to business or private use may be required to enable the entity to accurately calculate RFBA.

Another better practice is for entities that use corporate cards for purchasing to require the cardholder to provide details of the item at the time of purchasing, for example, details of employees/associates who attended a social function, details of non-employees who attended a social function including employees of other Australian government entities or the name and AGS/ID number of employees who received expense reimbursements. The cardholder will generally have sufficient understanding of the transaction to be able to collate such information. These details can be included in the FMIS or collated by the FBT work area. This practice enables details to be collated at the time of the event, rather than the FBT Manager having to collate information at FBT year end or a later date.



The FMIS and the payroll systems can be used together to capture FBT data. For example, if reimbursements for home telephone expenses are made through the payroll system, the employee can be requested to fill out an otherwise deductible declaration at the time the claim is submitted. The reimbursement can then be coded to general ledger codes such as "home telephone – private use" and "home telephone – business use". This means that for FBT reporting purposes the total expense payment amount (both GL codes) and the otherwise deductible component ('business use' GL code) can be extracted from the FMIS/payroll system and the RFBA data (linked to the employee's AGS/ID number) can be extracted from the payroll system.

### *Structure of general ledger codes*

Entities need to determine the most effective way of collating information for each benefit type. For example, if information can be collected through the FMIS and/or the payroll system then relevant codes should be titled in a way that assists processing staff to correctly classify the item. The codes should be used in conjunction with a policy or procedures manual that explains their correct use.

Set out below are some example better practice general ledger code titles:

- a) food and drink – not entertainment (for example, light meals provided at planning days, seminars, or to employees working late)
- b) food and drink – entertainment not subject to FBT (for example, meal entertainment provided at an eligible seminar)
- c) food and drink – entertainment subject to FBT (for example, a social event)
- d) recreation expenditure (for example, golf days or team building recreational activities)
- e) car expenses
- f) higher education contribution scheme – higher education loan program (HECS-HELP) component.
- g) study expenses (other than HECS-HELP), and
- h) home telephone expenses.

If such general ledger codes are used, FBT staff can then use the information from the FMIS, including detailed descriptions where applicable, in conjunction with ‘otherwise deductible’ declarations, recurring fringe benefit declarations and other relevant records, to determine the taxable value of fringe benefits.

### **Record-keeping**

Entities should keep detailed records supporting all FBT calculations. The FBTAA<sup>4</sup> requires records to be kept for a period of five years after the completion of the transactions or acts to which they relate. In certain circumstances, the Commissioner of Taxation may be able to amend an assessment up to six years after the date of the original assessment. Therefore, better practice entities will retain records for at least six years from the date of assessment to assist in determining the correct FBT payable amount.

Supporting work papers should be maintained in a manner that enables the required information to be easily accessed. This is particularly important in the event of staff turnover; where the responsibility for FBT management is moved from one work area to another or where a new system is introduced for FBT data collation.

Where a fringe benefit is provided to an employee of an associated entity a copy of the records must be given to the associated entity within 21 days after the end of the FBT year.<sup>5</sup>

Specific details on the records that should be kept are discussed under Better Practice 5 – Prepare and review the FBT return and supporting processes.

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<sup>4</sup> Refer section 132(1) FBTAA.

<sup>5</sup> Refer section 132(2) FBTAA.

### *Private rulings and internally prepared tax position papers*

Where the FBT treatment of an item is unclear, entities should take steps to clarify the position as soon as possible. It is good practice for the entity to prepare a tax position paper, seek advice from a tax adviser or seek advice or a private ruling from the Tax Office.

A tax position paper is a technical paper that documents the approach an entity takes on a tax matter. Tax positions taken by an entity will include the determination of the FBT treatment of a particular item. The tax position paper should set out the factual situation, the position taken and the rationale for this position.

Private rulings, other Tax Office guidance, external advice and internally prepared tax position papers should be reviewed to ensure that they reflect current legislation and current entity practices. To assist in doing this, private rulings and tax position papers should be dated, annotated for changes in entity practice or legislation and stored for easy reference.

### **Step four: Identify and address the training needs of managers and staff**

The provision of sufficient and appropriate training to staff involved in the preparation and collection of FBT data is a key factor contributing to the integrity and reliability of FBT information.

Better practice entities will encourage FBT Managers to keep their knowledge current by including FBT training and learning activities in their annual development plan, and by establishing an annual budget allocation for FBT training.

The training needs of staff involved in preparing the FBT return should be identified and addressed early in the FBT return preparation process. This is particularly important where new staff are involved in preparing the return.

Training can be provided in a number of ways, including:

- a) external training, such as training provided by a professional organisation, or forums where there is formal or informal information sharing
- b) structured internal training presented by a person with a good working knowledge of FBT, or
- c) on-the-job training.

The extent and nature of FBT training provided to various staff with responsibility for FBT administration will depend on a number of factors including the size and complexity of the entity, the number and type of benefits provided and the level of responsibility, knowledge and experience of relevant staff members.

Included at pages 20 to 22 is a training needs self assessment that entities can use to assist in identifying training needs of FBT staff.


### Handovers

Formal handover procedures form a valuable part of the FBT training process. Whenever possible, entities should provide new FBT staff with a handover from a staff member who prepared the FBT return for the prior year.

The records of a post-lodgment review and workpaper files can be used as a basis for the handover.

### Documentation checklist – Better Practice 2 - Establish and maintain an effective FBT internal control environment

Maintaining records that include the following documentation will help ensure that an entity has an adequate internal control environment in relation to FBT administration.

|  | Documentation checklist  |
|---|--|
|   | Allocation of FBT responsibilities   |
|   | Records of all FBT transactions  |
|   | FBT procedures specific to the needs of particular work groups in the entity |
|   | Internally prepared tax position papers                                      |
|   | Records of all advice and discussions with the Tax Office and tax advisers   |
|   | Training needs analysis  |

## Better Practice checklist – FBT control environment

An entity that has established an effective FBT environment will have implemented some or all of the better practices identified in the following checklist. The list is not intended to be prescriptive, as the measures taken by individual entities to control its risks will depend upon its particular operating environment.

Entities that can answer ‘yes’ to most of these questions are likely to have an effective internal control environment in relation to FBT administration. If most of the answers are ‘no’, entities should consider whether there is an opportunity to review their existing FBT control environment arrangements.

| Indicators of better practice   | Yes/No |
|---|--------|
| 1. Has overall responsibility for FBT administration be formally assigned to an individual or group?  |        |
| 2. Are FBT resource requirements periodically reviewed?   |        |
| 3. Do staff who are responsible for FBT compliance have an adequate understanding of FBT legislation and associated Tax Office guidance?  |        |
| 4. Are various groups with involvement in the administration of FBT provided with appropriate guidance? For example, detailed procedures for use by FBT staff and general FBT information for use by other staff.   |        |
| 5. Are there policy documents (such as CEIs and other procedures) covering an entity's FBT responsibilities?  |        |
| 6. Are policies and procedures updated at least annually to reflect changes in the type of benefits provided by the entity or changes in legislation, Tax Office guidance and entity practices?   |        |
| 7. Are updates to procedures reviewed and signed off by a person with a good knowledge of FBT?  |        |
| 8. Has the entity reviewed its FBT information system for data accuracy and ease of use? For example, has a transaction been traced through the FBT process to check whether the information system captures all relevant data?   |        |
| 9. Has the entity reviewed its FMIS and payroll system to determine whether they enable FBT data to be collected accurately and effectively?  |        |
| 10. Are information systems configured so that FBT information can be produced for any period, such as the FBT year and the financial year? For example, to enable quarterly data integrity reviews and to assist with financial statement reporting of executive remuneration? |        |
| 11. Have general ledger codes been structured so that FBT information can be easily identified and collated?  |        |
| 12. Are working papers that support FBT transactions kept for six years from the date of the transaction?   |        |
| 13. Is advice and documentation of discussions with the Tax Office and/or tax advisers dated, annotated and properly documented?  |        |
| 14. Are the specific FBT training needs of staff identified and internal/external training provided to meet such needs?   |        |
| 15. Are training plans maintained for staff involved in FBT administration so that regular training is provided and future training needs assessed?   |        |
| 16. Are procedures in place to notify associated entities of fringe benefits provided to their employees?   |        |

## Training needs self-assessment

Staff should self-assess their own training needs and take steps to ensure that they have sufficient FBT knowledge to undertake the role assigned to them. This training needs self-assessment can be used to assist staff in doing so.

If staff answer 'no' to any of the questions, it may indicate a potential training need. Entities should consider whether appropriate training can be provided internally or whether external training is required. The extent and nature of training will depend on such factors as the size and complexity of the entity and the number and types of benefits that are provided.

### *Less complex FBT issues – may highlight a need for basic FBT training*

| Issue  | Are you aware of this issue? Yes/No |
|--|-------------------------------------|
| <p><b>1. Liability to pay FBT</b></p> <p>FBT is paid by employers. This is the case regardless of whether the benefit is provided by the employer, an associate of the employer, or a third party under an arrangement.</p> <p>RFBA's are reported on employee payment summaries. RFBA's are not subject to income tax. They are taken into account in determining liability for certain payments such as the Medicare Levy surcharge, child support obligations and entitlement to certain government benefits.</p> |                                     |
| <p><b>2. Salary sacrifice arrangements</b></p> <p>A salary sacrifice arrangement is an arrangement between an employer and an employee, whereby the employee agrees to forgo part of their future entitlement to salary or wages in return for the employer providing them with benefits of a similar cost (to the employer).</p>  |                                     |
| <p><b>3. Gross-up rate used to calculate RFBA's</b></p> <p>The type 2 gross-up rate (1.9417) is always used to calculate RFBA's.</p>   |                                     |
| <p><b>4. When the type 1 gross-up rate is used</b></p> <p>The type 1 gross-up rate (2.1292) is used when the person who provided the fringe benefit (or another member of the same GST group) has an <b>entitlement</b> to claim an input tax credit (ITC) in relation to providing the benefit. The type 1 gross-up rate applies even if the entity does not actually claim the ITC.</p>  |                                     |
| <p><b>5. Methods used for calculating car fringe benefits</b></p> <p>The operating cost method and the statutory formula method are the two methods that can be used to calculate the taxable value of car fringe benefits.</p>  |                                     |

*More complex FBT questions – may highlight a need for additional training*

| Issue  | Are you aware of this issue? Yes/No |
|--|-------------------------------------|
| <p><b>1. Car fringe benefits</b></p> <p>The method used for calculating car fringe benefits (operating cost method or statutory formula method) applies on a car by car basis. Some cars can be taxed using the operating cost method and some cars using the statutory formula method. The method used for calculating the taxable value of the provision of a certain car may differ from year to year.</p>  |                                     |
| <p><b>2. Residual fringe benefits</b></p> <p>The private use of a vehicle which is not a car will be a residual fringe benefit if the private use is not restricted to:</p> <ul style="list-style-type: none"> <li>• travel between home and work</li> <li>• travel that is incidental to travel in the course of performing employment related duties, and</li> <li>• other minor, infrequent and irregular private use.</li> </ul>   |                                     |
| <p><b>3. Staff awards</b></p> <p>Staff awards may be taxed as a property fringe benefit, expense payment fringe benefit, tax-exempt body entertainment fringe benefit or residual fringe benefit depending on the nature of the award.</p>   |                                     |
| <p><b>4. Living away from home and travel allowances</b></p> <p>The payment of a living away from home allowance (LAFHA) to an employee who is living away from home is a fringe benefit that will be valued in accordance with section 31 FBTA.</p> <p>A travelling allowance forms part of the employee's assessable income. However, it will not need to be subject to PAYG, shown on the employee's payment summary or included in the employee's income tax return if it does not exceed the reasonable allowance limit and has been fully expended on deductible expenses.<sup>6</sup></p> |                                     |
| <p><b>5. Allowances and reimbursements</b></p> <p>A payment is an allowance where a person is paid a definite predetermined amount to cover an estimated expense. Other than LAFHAs and some cents per kilometre motor vehicle allowances (MVAs), most allowances are assessable income of the employee.</p> <p>A payment is a reimbursement when the recipient is compensated exactly (whether wholly or partly) for an expense already incurred although not necessarily disbursed or where the employee is required to acquit the allowance.<sup>7</sup></p>                                  |                                     |

<sup>6</sup> The Commissioner of Taxation has issued a notice of variation in accordance with section 15 15 of Schedule 1 to the *Taxation Administration Act 1953*, varying the withholding on a travel allowance to nil.

<sup>7</sup> Taxation Ruling TR 92/15 discusses the difference between an allowance and a reimbursement.

| Issue   | Are you aware of this issue? Yes/No |
|---|-------------------------------------|
| <p><b>6. Reimbursement of rent</b></p> <p>If an employee who is living away from home in order to perform employment duties pays their own rent, the reimbursement of that rent is exempt from FBT providing a living away from home declaration is provided.</p> <p>If the employee is not living away from home, the reimbursement of rent will be an expense payment fringe benefit and the taxable value will generally be the amount of rent reimbursed.<sup>8</sup></p>   |                                     |
| <p><b>7. Reimbursement of HECS-HELP, FEE-HELP and other study expenses</b></p> <p>The reimbursement of HECS-HELP, FEE-HELP and other study expenses are expense payment fringe benefits.</p> <p>The otherwise deductible rule will not apply to either HECS-HELP, or FEE-HELP repayments. However, it may apply to the reimbursement of tuition fees if the criteria for self education expenses are met.</p>   |                                     |
| <p><b>8. Overpayment of salary</b></p> <p>Salary payments are not fringe benefits. However, a loan benefit may arise if an agreement is entered into for an employee who has been overpaid a substantial amount of salary to repay the overpaid amount over a period of time.</p>   |                                     |
| <p><b>9. Tax-exempt body entertainment</b></p> <p>The section 58P FBTA minor and infrequent benefit exemption does not apply to tax-exempt body entertainment except where:</p> <ul style="list-style-type: none"> <li>a) the provision of the entertainment is incidental to the provision of entertainment to outsiders and does not consist of a meal, other than light refreshments, or</li> <li>b) the entertainment is provided to the employee (or associate) on the entity's business premises solely as a means of recognising the special achievements of the employee in a matter relating to the employment of the employee.</li> </ul> |                                     |
| <p><b>10. Tax-exempt body entertainment</b></p> <p>The exemption from FBT for property (for example, food or drink) consumed by an employee on business premises on a working day<sup>9</sup> does not apply to an Australian Government entity if the food and drink involves the provision of entertainment. For example, the cost of food and drink provided at a social function on business premises on a working day will not be exempt from FBT for an income tax-exempt Australian Government entity.</p>   |                                     |

<sup>8</sup> If the dwelling is located in a remote area, subsection 60(2A) of the FBTA may enable the taxable value of the expense payment fringe benefit relating to the reimbursement of rent to be reduced by 50% of the recipient's expenditure.

<sup>9</sup> Refer section 41 FBTA



## BETTER PRACTICE 3 PLAN EACH YEAR'S FBT RETURN



### Introduction

Planning is an important part of FBT administration. The early identification of issues that need to be addressed and the allocation of responsibility for various FBT tasks helps an entity to ensure that its FBT return is accurate and is prepared on time.

### Better practice timetable

Better practice entities will have a documented yearly timetable.

Set out below is an example timetable for a calendar year. **The timeframes are indicative only and should be tailored to meet each entity's particular circumstances.**

| Action   | Indicative timeframe                     |
|--|--|
| 1. Provide refresher sessions to work area contacts on technical aspects of FBT and data entry requirements.   | 15 January                               |
| 2. If paying by instalments the third instalment is due. Determine whether a variation should be lodged.   | 21 January                               |
| 3. Review the results of the previous year's post-lodgment review to identify any issues that need to be addressed in relation to the current year's FBT return. | 31 January                               |
| 4. Determine specific resourcing requirements for the preparation of the FBT return, including resources in each work area.                                      | 31 January                               |
| 5. Provide the Human Resources work area with proforma wording relating to fringe benefits to be included in the employee exit form.                             | 28 February (for the following FBT year) |
| 6. Prepare/review information to be included in the employee induction program.  | 28 February (for the following FBT year) |



| Action   | Indicative timeframe                     |
|--|--|
| 7. Develop/update an information/fact sheet for employees, particularly employees who may be home-garaging a vehicle or receiving a LAFHA, to advise on the possible RFBA implications of receiving fringe benefits. | 28 February (for the following FBT year) |
| 8. Liaise with the salary packaging provider(s) to agree on a process for providing year end data and reporting formats.   | 28 February (for the following FBT year) |
| 9. Review arrangements for notifying employees of RFBA's.  | 31 March                                 |
| 10. Seek an extension <sup>10</sup> for lodgment of the FBT return (if required).  | 31 March                                 |
| 11. If paying by instalments, the fourth instalment is due. Determine whether a variation should be lodged.  | 21 April                                 |
| 12. Provide associated entities with details of fringe benefits provided to their employees.   | 21 April                                 |
| 13. Ensure that all FBT data has been captured and collated.   | 24 April (for the previous FBT year)     |
| 14. Prepare draft return and RFBA's.   | 30 April (for the previous FBT year)     |
| 15. Confirm FBT rates and thresholds for the current FBT year, for example, car parking threshold and statutory interest rate.   | 30 April                                 |
| 16. Advise staff of their RFBA's prior to lodgment of the FBT return to provide them with the opportunity to review.   | 5 May (for the previous FBT year)        |
| 17. Finalise and lodge return. If necessary pay the balancing amount.  | 21 May (for previous FBT year)           |
| 18. Latest date for payment summaries to be issued, including RFBA amounts.  | 14 July                                  |
| 19. If paying by instalments, the first instalment is due. Determine whether a variation should be lodged.   | 21 July                                  |
| 20. Undertake prior year post-lodgment review.   | 30 September                             |
| 21. Review and update FBT risk assessment.   | 30 September                             |
| 22. If paying by instalments, the second instalment is due. Determine whether a variation should be lodged.  | 21 October                               |
| 23. Collect and review interim data that has been collated by entity staff.  | 30 November                              |
| 24. Collect and review interim data from salary packaging providers.   | 30 November                              |
| 25. Perform an interim review of general ledger transactions for fringe benefits not captured elsewhere.   | 30 November                              |
| 26. Liaise with work area contacts to agree on year end data collection arrangements.  | 15 December                              |

<sup>10</sup> An extension can be sought by lodging a written request with the Tax Office stating the reason for the request. Entities should cite a specific event or set of circumstances that have resulted in the need for an extension. Note: RFBA's will need to be available to enable payment summaries to be issued no later than 14 July. Data relating to benefits that may result in a RFBA should be finalised by mid June so that employees can be notified of their RFBA and be given to opportunity to comment before payment summaries are printed.

## FBT issues log

The maintenance of a central FBT issues log can be a useful tool in planning the FBT return process.

An issues log can provide details of those processing or technical issues that need to be addressed to assist in ensuring that the FBT return is accurate and lodged on time.


Typically an issues log would:

- a) contain details of all issues associated with preparing the return
- b) assign responsibility for resolving issue(s), and
- c) provide details of the outcome(s) required.

The final outcome should be clearly documented. If the issue is of interest to staff outside the FBT work area, the issue and outcome should be advised to relevant staff. For example, if an entity decided to start providing staff awards, all entity staff should be made aware of the potential RFBA implications of receiving an award.

## Documentation checklist – Better Practice 3 – Plan each year’s FBT return

Maintaining records that include the following documentation will help to ensure that an entity has an adequate paper trail to support its approach to planning the preparation of its FBT return.

|  | Documentation checklist                 |
|---|---|
|   | Yearly timetable                        |
|   | FBT issues log with documented outcomes |



## BETTER PRACTICE 4 COMMUNICATE WITH STAKEHOLDERS



### Introduction

Although primary responsibility for FBT administration rests with the FBT Manager or nominated work area there are a number of key stakeholders of FBT information including individual employees, other work areas, service providers and the Tax Office.

A Better Practice checklist is included at the end of this section at page 39.

### Communicating with employees

Given that RFBA's are recorded on employees' payment summaries<sup>11</sup> and the effect that RFBA's may have on the financial position of employees, it is particularly important that employees are fully informed of the RFBA implications of receiving fringe benefits.

Where an entity provides fringe benefits to its employees, FBT and RFBA information should be made available to relevant employees. The nature and extent of the information will vary depending on the types of benefits provided and whether salary packaging is provided in-house or by an external provider. FBT information could be provided through such means as newsletters, the intranet or other communication methods generally used by the entity.

The FBT Manager or staff responsible for administering FBT should work with the human resources work area so that the FBT implications of any remuneration issues are included in human resource publications.

In providing advice on FBT issues, care needs to be taken that the entity is not inadvertently providing financial advice. Detailed financial advice on the FBT and RFBA implications for individual employees should generally not be necessary. However, where an entity provides salary packaging to employees, it is better practice to provide a policy that can be used by employees to gain a general understanding of the impact of salary packaging on their after-tax position.

<sup>11</sup> Where the total taxable value of non-excluded fringe benefits provided to an employee or their associate is more than \$1 000 for an FBT year (1 April to 31 March) the grossed-up taxable value of the benefits should be recorded on the employee's payment summary for the corresponding income year (1 July to 30 June).



Better practice entities will recommend that employees seek financial advice before entering into a salary packaging arrangement, particularly in situations where the amounts involved are significant in the context of the employees overall remuneration. A common approach is to require employees to certify that they are aware of this recommendation.

### *Allocation of shared benefits*

Where benefits are allocated to a number of employees, such as pool vehicles that are home-garaged by several employees, there should be a documented policy on the allocation of the taxable value of the benefit.

For example, entities should have a documented basis for allocating the taxable value of home-garaged vehicles and this should be communicated to employees **before** they home-garage a vehicle.

### *Induction training*

New employees should be made aware of the FBT and RFBA implications of receiving fringe benefits because, in some cases, it may influence their decision whether or not to accept a benefit. The most common situation where this is likely to occur is where an employee is provided with the opportunity to home-garage a pool car.

Notification could be made as part of induction training or included in an induction pack. **The notification shown at Figure 1 on page 30** could be provided to employees as part of an induction process.

### *Notification to employees who are home-garaging a vehicle*

As indicated above, employees should be made aware of the FBT and RFBA implications of home-garaging a vehicle. This can be done by providing a notification to employees who may home-garage a vehicle and including a notification in the front of a log-book or running sheet as a reminder. **An example employee notification is shown at Figure 2 on page 31.**

### *Notification for employees who are required to live away from home*

If employees are required to live away from home in order to perform employment duties, an entity will generally pay a living away from home allowance or pay/reimburse certain costs incurred by the employee because they are required to live away from home. The FBT and RFBA implications of receiving such an allowance or expense payment/reimbursement should be clearly communicated to employees before they move to the alternate locality.

### *Employee exit form*

A risk arising in relation to FBT reporting is collecting data from employees who have left the entity.

It is important that, as far as possible, all benefit information is collected, reconciliations performed and adjustments made before the employee leaves the entity. This includes collecting closing odometer readings of a salary packaged car on the date that the employee is taken to have ceased employment to enable the taxable value of car fringe benefits to be calculated for the period that the employee was employed by the entity.

Section 7 of Part 2 of this Guide includes further discussion of loan and debt waiver fringe benefits in relation to overpaid salary or under-deducted FBT contributions.

In the event that information and monies are not collected from an employee before they cease employment, the entity should make a reasonable effort to obtain the information and/or money after the employee has left. Employees should be requested to provide forwarding address details when they cease employment so that they can be contacted. Entities should document efforts made to contact former employees to help ensure the entity has an adequate audit trail to support its approach in the event of a dispute.

**An example employee exit form is shown at Figure 3 on page 32.** Using such a form will assist in ensuring that FBT data relevant to an employee that is leaving is collected in a timely manner.

#### *FBT issues database/ FBT help desk*

Larger entities and entities that provide a large number and/or various types of fringe benefits should consider establishing a FBT issues database and/or a FBT help desk to provide staff with detailed information relating to FBT.

Details of questions and responses of general application could be documented either in a database or similar form that is readily accessible by staff. This will assist in raising the awareness and understanding of FBT in the entity and in providing consistent advice to staff. Such a database is also useful to train new staff who will be responsible for administering FBT.

It is useful to have the database ordered by benefit type and, if possible, allow keyword searches to assist staff in finding the information they require.

The FBT issues database should be subject to a periodic review to ensure that the responses are in line with current FBT legislation and entity practices.

If a FBT help desk is established, it is important that the information provided through the help desk is documented and indexed to assist in providing consistent advice and to avoid the need to cover the same material several times.

#### *Notification of RFBA*

Entities should establish arrangements for notifying employees of their RFBA as early as possible, so that once RFBA are finalised, employees can be notified promptly. This enables employees to review the amount and, if necessary, seek clarification prior to it being included on payment summaries. It also acts as an additional review of the FBT data. RFBA should be finalised before lodging the FBT return and no later than the time for payment summary reporting. Notifications to employees should include details of each fringe benefit provided, along with the taxable value of each fringe benefit.

**An example RFBA notification is shown at Figure 4 on page 33.**

FBT staff will generally coordinate the RFBA notification process, but may rely on the resources of the payroll work area or payroll services provider.

There should be a documented process on how employee questions are to be resolved. It will generally be appropriate that a central contact point is nominated for initial questions. The FBT Manager should liaise with the salary packaging provider and establish a process for resolving questions relating to salary packaged benefits.

The notification method will differ depending on a number of factors, including the size of the entity, the location of employees and whether employees are on leave.

A number of the common notification methods are outlined below:

- a) email
- b) secure intranet log-on
- c) payslip
- d) post

The method entities adopt will depend on a number of factors such as the cost of implementation and administration, security of the information, and timeliness.

### Figure 1 – RFBA notification to be included in the induction process

**Reportable fringe benefit amounts**

While you are working for \_\_\_\_\_ *{entity name}*, you may be given the opportunity to:

- a) home garage a vehicle owned or leased by the entity
- b) receive a living away from home allowance
- c) receive staff awards or other employment related benefits
- d) choose to salary package benefits, or
- e) receive an item that is considered to be a fringe benefit.

The receipt of fringe benefits may result in a reportable fringe benefit amount (RFBA) being reported on your payment summary. RFBAs arise where the total taxable value of all non-excluded fringe benefits received by an employee for the period 1 April to 31 March each year exceeds \$1,000.

RFBAs are not included in your assessable income and are not subject to income tax. However, RFBAs are taken into account in a number of income tests, including:

- Medicare levy surcharge. A higher RFBA will result in a higher medicare levy surcharge
- Deduction for personal superannuation contributions. A RFBA will be included in the calculation of employer remuneration and a higher RFBA may reduce your eligibility to claim a deduction for personal superannuation contributions
- Tax offset for eligible spouse superannuation contributions. A RFBA will be included in the calculation of your remuneration and may reduce your spouse's eligibility for the tax offset for spouse superannuation contributions
- Government Super co-contribution. A RFBA will be included in the calculation of employer remuneration and a higher RFBA may reduce your eligibility for the super co-contribution`
- Higher Education Contribution Scheme (HECS) (until 1 June 2006) and the HECS component of the Higher Education Loan Programme (HECS-HELP) repayments. A higher RFBA will result in a higher liability for HECS and HECS-HELP repayments
- Child support obligations. A higher RFBA will generally result in an increase in child support obligations or a decrease in child support entitlements if you are in receipt of child support payments, and
- Entitlement to certain income-tested government benefits. A higher RFBA will generally reduce your entitlement to income-tested government benefits.

Should you have any questions in relation to RFBAs, please contact *{FBT Manager}*, refer to the *{FBT policy or salary packaging policy}* or refer to the Tax Office website at [www.ato.gov.au](http://www.ato.gov.au).

Signed: ..... Date:

*{FBT Manager}*



Figure 2: Notification to employees who are home-garaging a car

**Attention Employees:**

Home garaging a car is deemed to be the private use of a car and may result in a car fringe benefit. Depending on how often you home garage a car and whether you have received other fringe benefits during the year, you may have a reportable fringe benefit amount (RFBA) recorded on your payment summary. RFBA's arise when the total taxable value of all non-excluded fringe benefits received by an employee for the period 1 April to 31 March each year exceeds \$1,000.

The taxable value of the car fringe benefit that is allocated to you will be calculated based on *{insert the allocation method used by the entity, such as the number of nights employees home garage the car/the private kilometres travelled in the car/a weighted average of the nights employees home garage the car and the private kilometres travelled in the car}*. This data will be collated from the *{vehicle running sheets/vehicle log-book}*.

RFBA's are not included in your assessable income and are not subject to income tax. However, RFBA's are taken into account in a number of income tests, including:

- Medicare levy surcharge. A higher RFBA will result in a higher Medicare levy surcharge
- Deduction for personal superannuation contributions. A RFBA will be included in the calculation of employer remuneration and a higher RFBA may reduce your eligibility to claim a deduction for personal superannuation contributions
- Tax offset for eligible spouse superannuation contributions. A RFBA will be included in the calculation of your remuneration and may reduce your spouse's eligibility for the tax offset for spouse superannuation contributions
- Government Super co-contribution. A RFBA will be included in the calculation of employer remuneration and a higher RFBA may reduce your eligibility for the super co-contribution
- Higher Education Contribution Scheme (HECS) (until 1 June 2006) and the HECS component of the Higher Education Loan Programme (HECS-HELP) repayments. A higher RFBA will result in a higher liability for HECS and HECS-HELP repayments
- Child support obligations. A higher RFBA will generally result in an increase in child support obligations or a decrease in child support entitlements if you are in receipt of child support payments, and
- Entitlement to certain income-tested government benefits. A higher RFBA will generally reduce your entitlement to income-tested government benefits.

Should you have any questions in relation to RFBA's, please contact *{FBT Manager}*, refer to the *{FBT policy or salary packaging policy}* or refer to the Tax Office website at [www.ato.gov.au](http://www.ato.gov.au).

Signed: ..... Date:

*{FBT Manager}*

**Figure 3: Employee exit form**

|   |  |
|---|--|
| <p><b>Employee exit form</b></p> <p>Employee name:</p> <p>Employee AGS/ID number:</p> <p>1. Since 1 April ___ did you salary package a car, home garage a car or have a car provided to you through the executive vehicle scheme?</p> <p><input type="radio"/> No (go to Question 2)                      <input type="radio"/> Yes:</p> <p>Please provide the following details to the Human Resources work area/salary packaging provider at the earlier of when you return the car or when you have ceased employment with this entity:</p>  |  |
| Registration of vehicle   |  |
| Employee AGS/ID number  |  |
| Odometer reading on the date of ceasing employment with this employer. Note: this may include a period where you have taken leave. If you are unsure of the date that you ceased employment with this entity, please contact <i>{Human Resources contact}</i>   |  |
| <p>2. Was <i>{entity name}</i> paying/reimbursing any study leave, Higher Education Contributions Scheme or Higher Education Loan Programme payments for you?</p> <p><input type="radio"/> No (go to Question 3)                      <input type="radio"/> Yes:</p> <p>Does the Human Resources work area/salary packaging provider have all paperwork in relation to reimbursed study expenses? If not, please provide all paperwork to <i>{contact}</i> as soon as possible.</p> <p>3. Did you salary package any other benefits?</p> <p><input type="radio"/> No                      <input type="radio"/> Yes.</p> <p>4. Since 1 April ___ did you receive a living away from home allowance (LAFHA) or any other payments/reimbursements relating to living away from home or relocating?</p> <p><input type="radio"/> No                      <input type="radio"/> Yes:</p> <p>5. Since 1 April ___ have you received any other expense reimbursements, the private use of any entity property such as a home-based desk-top computer, or any staff awards?</p> <p><input type="radio"/> No (go to Question 6)                      <input type="radio"/> If Yes:</p> <p>Please provide details: _____</p> <p>6. For those fringe benefits received have you provided the relevant documentation for example a LAFHA and/or otherwise deductible declaration?</p> <p><input type="radio"/> No                      <input type="radio"/> Yes:</p> <p>7. Have you advised the Human Resources work area/salary packaging provider of your exit date?</p> <p><input type="radio"/> No                      <input type="radio"/> Yes:</p> <p>Should you require assistance in completing this form, please contact <i>{FBT Manager}</i>.</p> |  |

Figure 4: Example RFBA notification

Name:

Employee AGS/ID number:

Where the taxable value of all non-excluded fringe benefits provided to you during the FBT year exceeds \$1,000, *{entity name}* is legally required to record a reportable fringe benefit amount (RFBA) on your payment summary.

Your RFBA for the FBT year ended 31 March 20XX is: \$[xxxx].

Our records indicate that this amount is based on the following fringe benefits being provided to you during the FBT year:

| <i>Benefit type</i>             | <i>Taxable value \$</i> |
|---------------------------------|-------------------------|
| Car fringe benefit              | XXX                     |
| Expense payment fringe benefits | XXX                     |

The RFBA shown on your payment summary is the grossed-up amount, which equals the total of the taxable values multiplied by the gross-up rate 1.9417 (Total \$XXXX)

If you believe that there is an error in your RFBA, or have any questions in relation to RFBA's, please call *{contact name}*.

It is important that any issues relating to this advice are resolved to enable lodgment of the FBT return by 21 May 20XX. Therefore any questions you have must be received by **15 May 20XX**. If you do not contact us regarding the RFBA shown above, it will be included on your 30 June 20XX payment summary.

RFBA's are not included in your assessable income and are not subject to income tax. However, RFBA's are taken into account in a number of income tests, including:

- Medicare levy surcharge. A higher RFBA will result in a higher medicare levy surcharge
- Deduction for personal superannuation contributions. A RFBA will be included in the calculation of employer remuneration and a higher RFBA may reduce your eligibility to claim a deduction for personal superannuation contributions
- Tax offset for eligible spouse superannuation contributions. A RFBA will be included in the calculation of your remuneration and may reduce your spouse's eligibility for the tax offset for spouse superannuation contributions
- Government Super co-contribution. A RFBA will be included in the calculation of employer remuneration and a higher RFBA may reduce your eligibility for the super co-contribution
- Higher Education Contribution Scheme (HECS) (until 1 June 2006) and the HECS component of the Higher Education Loan Programme (HECS-HELP) repayments. A higher RFBA will result in a higher liability for HECS and HECS-HELP repayments
- Child support obligations. A higher RFBA will generally result in an increase in child support obligations or a decrease in child support entitlements if you are in receipt of child support payments, and
- Entitlement to certain income-tested government benefits. A higher RFBA will generally reduce your entitlement to income-tested government benefits.

Should you have any questions in relation to RFBA's, please contact *{FBT Manager}*, refer to the *{FBT policy or salary packaging policy}* or refer to the Tax Office website at [www.ato.gov.au](http://www.ato.gov.au).

Signed: ..... Date:

## Communicating with other work areas

A number of work areas within entities may have responsibility for some aspects of FBT administration. As FBT can effectively double the cost of providing a fringe benefit, work area managers may need to consider FBT costs when developing a budget for their work area. For example, the FBT payable by an Australian Government entity on the provision of a fringe benefit valued at \$220 for which there is an entitlement to claim an input tax credit will be \$227.18. The total cost after claiming the relevant input tax credit will be \$427.18. Some entities budget for FBT in a central finance area. Under such a FBT management structure, the central finance area should consider the potential FBT costs for the entity and include them in its budget.

Other work areas need to be made aware of their roles and responsibilities in the context of the overall FBT process and their needs and expectations should also be managed.

### *Human resources work area*

Regular communication between FBT staff and human resources staff may assist in ensuring that FBT issues are considered when making remuneration decisions. The human resources work area may make decisions regarding remuneration that have a FBT impact. For example, changing living away from home entitlements may impact the FBT liability due to the LAFHA provisions, the expense payment fringe benefit provisions and/or the residual fringe benefit provisions. An entity needs to be satisfied that managers who are involved in issues of remuneration and the provision of benefits recognise potential FBT implications and have a process for obtaining assistance in relation to FBT issues. When in doubt, staff should be encouraged to seek assistance from the FBT Manager or FBT work area.

### *Fleet management work area*

The fleet management work area may be required to provide data in relation to car fringe benefits provided. Therefore managers who are responsible for managing the entity's vehicle fleet need an understanding of the FBT implications of providing a vehicle for private use, such as home-garaging a car, the classification of journeys and be able to explain this to work area managers or refer the work area managers to the FBT Manager.

FBT Managers should be proactive in providing information to all relevant work area managers.

## Communicating with other Australian Government entities

It may be necessary to communicate with other Australian Government entities to provide details of fringe benefits provided to the employees of the associated entity, or to clarify responsibilities where structural changes have resulted in employees being transferred between entities during the year.

## Communicating with service providers

Australian Government entities generally rely on information provided by a number of external service providers in preparing their FBT return. The relationship with these providers needs to be managed so that the information provided by them is accurate and timely. Wherever possible, the contract with the external service provider should contain specific provisions making the service provider responsible for any costs arising as a result of incorrect information provided by them.

### Salary packaging providers

Salary packaging providers are used by a number of Australian Government entities. Benefits managed by salary packaging providers often constitute a significant proportion of the total fringe benefits provided by entities.

It is important that information received from a salary packaging provider is timely, correct and in a form that is easily imported into the entity's FBT return preparation process.

Entities should gain an understanding of the processes and controls used by salary packaging providers to assist in gaining assurance that the information received is correct. This review should be undertaken for each benefit type. In the event that weaknesses in processes and controls are identified, entities should resolve these issues with the salary packaging provider. It is better practice to review, at least on a sample basis, the data collated by the salary packaging provider for reasonableness and accuracy.

### Fleet providers

Fleet providers will generally provide FBT information for vehicles leased from them, such as executive vehicle scheme vehicles. Entities need to ensure that the fleet manager has processes to collate FBT data in a form that can be easily imported into the entity's FBT return preparation process. This should be done prior to the commencement of the FBT year because changes to reporting formats can be costly and time consuming.

Included below is an example of a schedule of deliverables that could be agreed with an external service provider such as a salary packaging or fleet provider. Wherever possible, better practice entities would agree many of these issues at the time of entering into contractual arrangements with the external service provider. Otherwise, the deliverables should be agreed as soon as possible after entering into contractual arrangements. Better practice entities will review these items annually or as otherwise required.

| <b>Example of a schedule of deliverables that could be agreed with an external service provider.</b>  |
|---|
| Agree the form that data should take to enable it to be easily imported into the entity's FBT return preparation process.                                   |
| Obtain an outline of the processes and associated controls the external service provider has and assess whether they are adequate to produce accurate data. |
| Agree a timetable for the provision of data to assist in preparing an interim FBT return (if applicable).   |
| Agree a timetable for data to be provided to enable the timely preparation of the year end FBT return.  |

### **External technical support**

Better practice entities will seek external advice to clarify the treatment of items that are of a high dollar value or are considered high risk items. Entities can seek advice from a number of external sources, including:

- a) an external tax adviser, and/or
- b) the Tax Office.

Seeking advice from a tax adviser will result in a cost to the entity. Requesting a private ruling from the Tax Office may not result in any direct cost, but will require the FBT Manager or other staff to prepare the request.

Advice from a tax adviser will generally be appropriate where the FBT Manager considers that there may be more than one way to provide the same benefit type. For example, an entity may be reviewing its living away from home benefits and determining what amounts will be paid as an allowance and what amounts will be paid as an expense reimbursement. In this situation, the tax adviser can provide guidance on the FBT implications of each option and advise on any other issues that should be considered.

When an external service provider is engaged to provide advice or to assist an entity to meet its FBT obligations, the exact nature of the services to be provided, the costs and timeframes should be included in a contract. Entities should also consider the need for the service provider to have an appropriate level of professional indemnity insurance.

Seeking a private ruling from the Tax Office will generally be appropriate where the FBT Manager is reasonably sure of the correct FBT treatment of an item but requires certainty from the Tax Office. Where a private ruling has been obtained from the Tax Office it may be appropriate to ask for a further private ruling following changes to the FBT legislation, or to the arrangement. A private ruling provides guidance on a particular set of facts for specified years. It cannot provide guidance on alternative ways of providing a certain benefit type.

Consideration should be given to the most appropriate time to seek a private ruling. Wherever possible, the process should not be undertaken at the same time as preparing the annual FBT return. Background research and drafting a request for a private ruling can be time consuming and it is important that entities submit fully considered requests. The Taxpayers' Charter states that the Tax Office will aim to provide a response within 28 days of receiving all necessary information in relation to the ruling request.

### **Communicating with the Tax Office**

Given that the Tax Office administers the collection of FBT and may provide advice in relation to the FBT treatment of certain items, communications with the Tax Office also need to be effectively managed.

Better practice entities will require that only persons in certain positions (such as the FBT Manager and CFO) communicate with the Tax Office.

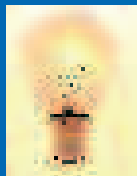
The Tax Office provides advice regarding FBT in various forms including:

- a) written binding advice about how the Fringe Benefits Tax legislation applies to the specific circumstances of the entity. For example, private rulings issued to the entity
- b) written general advice about the general operation of the legislation
- c) public rulings
- d) register of private binding rulings
- e) taxation determinations
- f) class rulings
- g) ATO interpretative decisions
- h) taxpayer alerts
- i) law administration practice statements and
- j) various publications concerning FBT. For example, *Fringe Benefits Tax: A Guide for Employers* (NAT 1054) that can be found at [www.ato.gov.au](http://www.ato.gov.au).

The types of advice listed in categories c) to i) are available from the Tax Office website at [www.ato.gov.au](http://www.ato.gov.au).

Guidance in relation to seeking private rulings is outlined under 'External technical support' above.

Many FBT Managers also obtain ad hoc oral advice concerning FBT from the Tax Office help desk. When obtaining such advice it is important that the entity makes a written record of any discussions with the Tax Office. Written records should also be maintained of any meetings held with the Tax Office, or any Tax Office audit activity. Such records are not binding on the Tax Office but are useful in explaining the basis for action taken by the entity. A private ruling should be obtained where binding advice is required about the application of the FBT legislation to a particular arrangement.




FBT records should include:

- a) all Tax Office correspondence
- b) minutes of all meetings with the Tax Office
- c) Tax Office private rulings
- d) FBT registration and signing authority details, and
- e) correspondence and notes of discussions relating to Tax Office audit activity.

## Documentation checklist – Better Practice 4 – Communicate with stakeholders

Maintaining records that include the documentation set out below will help to ensure that entities are adequately communicating with stakeholders.

| Documentation checklist  |  |
|--|--|
|  | Notification forms to advise employees of the FBT and RFBA implications of receiving fringe benefits     |
|  | Notification forms to advise employees of the method for allocating the taxable value of fringe benefits |
|  | FBT details to be included in the employee induction process   |
|  | Details of arrangements for notifying employees of RFBA  |
|  | RFBA notification form(s)  |
|  | Employee exit form(s)  |
|  | Details of arrangements for communicating FBT information to all relevant work areas within the entity   |
|  | Contract arrangements with service providers and external advisers                                       |
|  | Details of communications with the Tax Office  |



## Better Practice checklist – Communicate with stakeholders

An entity that has established effective mechanisms for communicating with stakeholders will have implemented some or all of the better practices identified in the following checklist. The list is not intended to be prescriptive, as the measures taken by individual entities to communicate with relevant stakeholders will depend upon its particular operating environment.

Entities that can answer 'yes' to most of these questions are likely to have established effective mechanisms to communicate with stakeholders in relation to FBT administration. If most of the answers are 'no', entities should consider whether there is an opportunity to review their existing FBT communication arrangements.

| Indicators of better practice  | Yes/No |
|--|--------|
| 1. Has the entity included information regarding FBT and RFBA as part of its employee induction program?   |        |
| 2. Are employees notified of the RFBA implications of receiving fringe benefits, such as home-garaging a car, receiving a LAFHA or receiving a staff award?  |        |
| 3. Does the employee exit form request information from employees regarding fringe benefits received by them while employed by the entity?   |        |
| 4. Does the FBT Manager liaise with the human resources work area to make human resources staff aware of FBT issues that they should consider when making remuneration decisions and offer assistance in making such decisions?  |        |
| 5. Is there a process whereby the FBT Manager is kept informed of decisions that may have a FBT impact, for example, the introduction of new benefit type or allowance?  |        |
| 6. Does the entity regularly communicate with third parties such as salary packaging providers and fleet providers? Has the entity documented roles and responsibilities for all these parties?  |        |
| 7. Where applicable, has the entity sought professional advice or a private ruling from the Tax Office to clarify the treatment of items where there is uncertainty as to the correct FBT treatment and/or where there is a significant financial or operational impact if the FBT treatment is incorrect? |        |
| 8. Are there documented procedures for communicating with the Tax Office?  |        |



# BETTER PRACTICE 5

## PREPARE AND REVIEW THE FBT RETURN AND SUPPORTING PROCESSES



### Introduction

Entities should introduce better practices for the preparation and review of their FBT return and associated processes to assist in ensuring the FBT return is complete, accurate and lodged on time. The effectiveness of these practices relies on systems and controls being developed in line with the better practices outlined in *Better Practice No. 2 Establish and maintain an effective FBT control environment*.

A Better Practice checklist is included at page 53.

### Preparation of the FBT return

One of the most important aspects of preparing an accurate FBT return is ensuring that all fringe benefits have been recognised and all necessary supporting details have been captured and reported.

This section provides guidance on practices that assist entities in preparing their FBT return.

#### *Spreadsheets*

Spreadsheets are an effective tool to capture relevant data as individual worksheets can be provided by each work area and a summary spreadsheet can be created that links to each work area spreadsheet and feeds into a fringe benefit calculation process such as a commercial FBT software product.

Entities utilising spreadsheets in the administration of FBT should ensure they have implemented effective security and access controls designed to protect the integrity of the data entered into the spreadsheets.



### ***Record-keeping requirements***

Entities should keep records to support all FBT decisions and calculations. FBT information should be collected, documented and included in the entity's official record-keeping system.

Where data is collected from a number of work areas, source documents should be easily accessible. Better practice is to have copies of all documentation fully referenced to supporting workpapers.

Records may be kept electronically, but if the entity changes operating systems, the records must be stored in a medium that can be accessed at a later date, such as in the event of a Tax Office audit.

The FBTA<sup>12</sup> requires that records are kept that explain all transactions and other acts that are relevant for the purpose of ascertaining the employer's liability under the FBTA and that those records are retained for a period of five years after the completion of the transactions or acts to which they relate. As mentioned previously at page 16, better practice entities will retain FBT records for a period of six years.

This requirement also applies to fringe benefits provided to employees of an associated entity.

### ***FBT preparation certification***

It is better practice for each person or work area responsible for collating FBT data to certify that information collated is complete and accurate. This can be done by individual work areas and/or by a centralised FBT area, and is best done by benefit type.

It is better practice for entities to have certifications reviewed by a second person to provide further assurance over the FBT return preparation process. This second review will generally be performed by a person in a more senior position. Each reviewer should sign the certification for the benefits that he or she has reviewed.

**Example certifications are included at Figure 5 and 6 on pages 44 and 45 respectively.** The certification at Figure 5 would apply to an entity where the administration of FBT is decentralised and relies on a number of work areas providing information. The certification at Figure 6 would be more applicable for an entity where the collation of FBT data is centralised.

### ***Declarations***

Entities should obtain all relevant declarations prior to lodging the FBT return, including:

- a) otherwise deductible declarations (expense payment, loan, property and residual benefits)
- b) recurring fringe benefit declarations (expense payment, loan, property and residual benefits)
- c) living away from home benefits declarations
- d) temporary accommodation relating to relocation declarations
- e) remote area holiday transport expenses declarations
- f) fuel and oil declarations

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<sup>12</sup> Refer section 132 of the FBTA.

g) declarations relating to cents per kilometre payments for:

- relocation transport
- remote area holiday transport
- overseas employment holiday transport
- work-related medical examination, medical screening, preventative health care, counselling, migrant language training, and
- employment interview or selection tests

h) car substantiation declarations (expense payment, loan, property and residual benefits), and

i) no private use declarations.

Entities are required to elect to use certain valuation methods to calculate the taxable value of certain fringe benefits. For example, entities must elect to use the operating cost method to value car fringe benefits and must elect to use the 50/50 method or 12 week register method<sup>13</sup> to calculate the taxable value of meal entertainment fringe benefits.

There is no need to lodge an election with the Tax Office. In most cases, business records are sufficient evidence of the election made.

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<sup>13</sup> Further details on the valuation of car fringe benefits and meal entertainment is included in Part 2 of this Guide

**Figure 5: Example work area certification**

**Example Work Area Certification\***

This certification is primarily designed for use by individual work groups that have responsibility for collating some FBT data but do not have specific operational responsibility for preparing the entity's FBT return.

Benefit type: \_\_\_\_\_

Work area: \_\_\_\_\_

Taxable value: Type 1: \_\_\_\_\_ Type 2: \_\_\_\_\_

FBT amount: \_\_\_\_\_

Documentation/declarations/elections are complete and accurate, support the taxable value, reductions and exemptions applied to this benefit type and are filed with the benefit workpapers Yes/No

Comments:

File reference/network path: \_\_\_\_\_

Preparer's signature: \_\_\_\_\_

Date: \_\_\_\_\_

Reviewed by: \_\_\_\_\_

Date: \_\_\_\_\_

\*The exact wording of the certification should be customised to reflect the responsibility of individual work areas.

**Figure 6: Example FBT work area certification**

**Example FBT Work Area Certification \***

This certification is primarily designed for use by the work area with specific operational responsibility for preparing the entity's FBT return.

Benefit type: \_\_\_\_\_

Work area: \_\_\_\_\_

Taxable value: Type 1: \_\_\_\_\_ Type 2: \_\_\_\_\_

FBT amount: \_\_\_\_\_

Included in the FBT return? (Yes/No): \_\_\_\_\_

Documentation/declarations/elections are complete and accurate, support the taxable value, reductions and exemptions applied to this benefit type and are filed with the benefit workpapers Yes/No

Comments:

File reference/network path: \_\_\_\_\_

Preparer's signature: \_\_\_\_\_

Date: \_\_\_\_\_

Reviewed by: \_\_\_\_\_

Date: \_\_\_\_\_

\* The exact wording of the certification should be customised to reflect the requirements of the work area with specific operational responsibility for preparing the entity's FBT return.

### Review of the FBT Return

It is better practice for a separate certification to be signed by the person who reviews the completed FBT return and the person who signs the FBT return. For some entities this may be the same person.

**An example return certification is shown at Figure 7 below.**

**Figure 7: Example FBT completed return certification**

**Example completed FBT return certification\***

I \_\_\_\_\_ *{FBT Manager/FBT reviewer}*  
declare that the information contained in the 31 March \_\_\_\_ FBT return, and  
the accompanying workpapers, gives an accurate representation of the FBT  
liability for \_\_\_\_\_ *{entity name}*.

Signed: \_\_\_\_\_  
Position: \_\_\_\_\_  
Date: \_\_\_\_\_

\* \* \*

I \_\_\_\_\_ have signed the 31 March \_\_\_\_ FBT return. I am  
registered with the Australian Taxation Office as the authorised signatory for  
FBT purposes.

Signed: \_\_\_\_\_  
Position: \_\_\_\_\_  
Date: \_\_\_\_\_

\*The exact wording of the certification should be customised to reflect individual entity requirements.



## Preparing a return for another entity

Australian Government entities can prepare part or all of a return for another entity, provided that an officer from the employer entity signs the return. This is not general practice, but may occur where an entity commonly manages a particular benefit type for another entity or where finance services are provided by another entity.

## Review arrangements

There are a number of advantages for entities that use formal review arrangements to continually improve the effectiveness of their FBT administration. For example, entities that formally review their prior year FBT return and processes achieve the following:

- a) information gathered from review processes may assist with continuous improvement activity. Where risks or issues are identified their cause can often be determined and remedial action taken
- b) processes are refined to become more efficient and cost effective, reducing the need for subsequent review activity, and
- c) the outcome of the assessment of the integrity and effectiveness of FBT processes may then be reflected as necessary in the broader risk management activities of the entity.

This section of the Guide outlines how entities might implement this better practice by undertaking both internal and independent review activities.

### *Responsibility for review activity*

As with other better practices discussed in this Guide, the starting point for implementing an effective review regime of FBT administration is to ensure that the people responsible for the review(s) have a good knowledge of FBT.

In some entities, the responsibility for review arrangements will be assigned to the FBT Manager, while in others, the CFO or the Finance Manager will be given oversight responsibility. Reviews of FBT administration may be undertaken as a separate exercise or as part of a program of periodically reviewing legislative compliance and other business processes.

### *Internal reviews*

There are a number of review activities that can assist in identifying areas of potential improvement in FBT processing:

- a) regular reviews of relevant general ledger codes
- b) preparation of a mid-year return or quarterly or mid-year data integrity reviews, particularly of those transactions that have a significant FBT impact
- c) a pre-lodgment review that examines FBT return data and calculations, and
- d) a post-lodgment review that examines FBT return data, calculations and processes.

The overall effectiveness of FBT review activity depends in a large part on an entity's commitment to correct errors and implement opportunities for process improvements identified by the review(s).

### ***Review general ledger transactions***

A review of general ledger transactions should be undertaken to provide entities with assurance that all fringe benefits have been captured.

As a minimum, the following general ledger codes should be reviewed at year end to determine whether there are any fringe benefits that have been provided but have not been captured by other processes:

- a) entertainment expenses
- b) food expenses (for example sustenance, morning teas, food and beverage)
- c) staff awards
- d) any codes with 'FBT' or 'no FBT' in the title
- e) other administrative expenses
- f) miscellaneous expenses
- g) HECS and HECS-HELP
- h) study expenses, and
- i) any travel or LAFHA codes, for example, overseas living allowance and post adjustment allowance.

Some accounting software packages enable general ledger codes to be created with a FBT flag in the account code information. This flag makes it mandatory for personnel details to be included when entering data. Such information makes the review of general ledger codes at year end easier.

### ***Preparation of a mid-year return and data integrity reviews***

Better practice entities may find it useful to prepare a quarterly or mid-year FBT return to enable all processes and controls to be effectively tested and help to ensure that year end data is accurate and complete.

As part of the same process, or as a separate process, entities should consider the benefits of undertaking quarterly or mid-year FBT data integrity reviews. Such reviews assist in identifying system and control weaknesses and, where possible, rectifying them in an accurate and timely manner. The frequency of data integrity reviews will depend on such things as the size of the entity, the number and types of benefits provided and the maturity of FBT controls and processes.

Data integrity reviews are particularly important for car fringe benefits. If systems are not in place to collect car data and other relevant information such as details of employees who home-garaged a vehicle, it will be difficult to collate car fringe benefit data and to calculate RFBA's for relevant employees.

### ***Pre-lodgment and post-lodgment reviews***

Better practice is to perform both pre-lodgment and post-lodgment reviews. The extent and nature of such reviews will depend on such things as the size and complexity of the entity's FBT environment and the level of assurance sought by the entity about its compliance with its FBT obligations.

The outcomes of pre-lodgment and post-lodgment reviews should be documented and used in identifying FBT risks.

### ***Pre-lodgment review***

Pre-lodgment reviews should be undertaken as soon as all information is collated and prior to the return being lodged. Pre-lodgment reviews can be undertaken as a staged approach as information relating to certain benefit types is finalised or, as many entities do, completed when the FBT return has been prepared but not yet lodged .

Such a review should include the following steps:

- a) compare the current year return to prior year returns and investigate any significant discrepancies. If the benefit types provided in the current year are similar to those provided in prior years, this process will assist in identifying benefits that have not been reported or that may have been reported twice
- b) review data provided by third parties, including salary packaging providers and fleet providers to ensure that it has been accurately processed
- c) review a sample of transactions to check that they have been correctly reported
- d) perform a review of calculations to check that any formulas used are correct, and
- e) perform an overall "reasonableness" review of the return, including a high level review of all workpapers.

These tasks do not have to be performed by the same person, although better practice is for one person to oversee the whole process. Where possible, the oversight of the pre-lodgment review should be undertaken by someone who was not involved in preparing the return but has sufficient FBT knowledge to be able to identify errors or discrepancies.

This process should be documented and signed off by the person performing each task.

**The Review checklist at the end of this section at pages 54 and 55 can be used as a basis for completing a pre-lodgment review.**

### ***Post-lodgment reviews***

A properly conducted post lodgment review provides greater assurance to the Chief Executive that the entity is meeting its FBT obligations in a cost effective and efficient manner.

Post-lodgment reviews should be undertaken after the FBT return has been lodged but while the process is still fresh in the minds of those staff who prepared the return.

The post-lodgment review should address two main questions:

- a) what aspects of the process went well? and
- b) what aspects of the process require improvement?

The outcomes of the review should be fully documented and used as a basis for implementing process improvements where necessary. The post-lodgment review documentation can also be used as a reference point for the preparation of the following year's FBT return, or as a basis for a handover to new staff.

**The Review Checklist contained at the end of this section at pages 54 and 55 can also be used to assist in completing a post-lodgment review.**

### *Issues log*

Some entities find maintaining a central issues log a useful tool to enable issues arising from review activities to be appropriately recorded, addressed and communicated. For an issue log to be useful, all substantive issues and errors must be captured. The log itself should be reviewed periodically to ensure that, where necessary, corrective action has been taken.

The issues log can be used as an information resource for the entity. If the resolution of the issue is clearly explained in the log, it can be used as an information and education tool for FBT staff, as well as an information source for other staff in the entity.

## **Independent reviews**

Independent reviews conducted by the entity's internal audit team or an external service provider can be useful in providing assurance about the integrity of the entity's FBT administration.

These reviews may assist an entity ensure that:

- a) ongoing compliance obligations are met
- b) processes are working as effectively as possible, and
- c) the entity's senior managers and executive are aware of potential risk exposures.

As with any review, the entity should implement measures aimed at ensuring that FBT reviews are adequately planned, performed and supervised, and that the results of the review are comprehensive and constructive. The review should include appropriate consultation with responsible officers, senior management and external parties, as required.

Entities should consider if their internal audit plan should include a periodic audit of FBT administration either as a stand alone audit or as part of a broader audit of entity tax or legal compliance.

### *External reviews*

Where an external party is engaged to prepare or review part or all of the FBT return or to perform a post-lodgment review, the external party should provide the required certifications so that there is a clear record of the activities undertaken.

Entity staff with responsibility for FBT administration should certify that they are satisfied that the work has been undertaken in accordance with contractual requirements.

## Amending the FBT return

Performing a post-lodgment review may identify an error that requires the FBT return to be amended.

If an entity determines that an amendment to its FBT return is required, the entity should write as soon as possible to the Tax Office either requesting an amended assessment, or lodging an objection against the assessment.

The request, which must be dated and signed, should provide the following information:

- a) whether it is an amendment request, or an objection
- b) the name of the employer
- c) the tax file number of the employer
- d) the name, address and telephone number of a contact person
- e) the year of the assessment
- f) the reason(s) for the amendment (or grounds of objection)
- g) whether the benefits are type 1 or type 2, and
- h) the exact adjustment to each benefit type, including the corrected taxable values.

Lodgment of the FBT return is deemed to be an assessment.

The time limits for requesting an amendment to the assessment depend on whether the requested amendment will result in a reduction or increase in FBT payable.

A taxpayer can only request an amendment to reduce the FBT payable within three years of the date the FBT return was lodged.

Where an amendment is requested by an entity, the entity has three years from the date of the issue of the amended assessment to request further reducing adjustments in relation to the item that was the subject of the amended assessment.

Amendments to increase the FBT payable by the entity, either as a result of voluntary disclosure or following a Tax Office review, are able to be made within six years of the lodgment of the return.

The Commissioner of Taxation has the general power to amend any assessment within three years. In cases where tax has been avoided or where there has not been full and true disclosure, the Commissioner of Taxation can amend the assessment within six years of lodgment or subsequent amendment of the particular return.

In cases of fraud or evasion there is no time limit within which the Commissioner of Taxation can amend an assessment.

Any objection against an assessment must be lodged within four years.

### ***Revised notification of RFBA amounts***

If an error in an entity's FBT return affects RFBA's and employee payment summaries have already

been issued, entities are required to issue a letter of correction showing the correct RFBA and provide a copy to the Tax Office. There is no need to issue a correction letter if the payment summary understates an employee's RFBA by \$195 or less (Tax Office Practice Statement LA 2002/7).


RFBA correction letters should be prepared and issued as soon as possible after an error is identified. It is the employee's responsibility to amend, as necessary, their income tax return or advise relevant government agencies based on the payment summary issued. Any delay may result in additional administration and inconvenience for employees.

Entities are not legally required to assist employees with a request to amend their income tax return or advise other relevant entities of the change to their RFBA. However, given that the employee is required to take such action as a result of an error made by the entity, entities may consider it appropriate to provide general assistance to employees. This may include providing a reference to the Tax Office web page dealing with income tax return amendment requests. Entities may also consider providing general guidance to employees in relation to the other entities that employees may need to inform of a change to an employee's RFBA, such as the Child Support Agency or Centrelink.

RFBA correction letters are required whenever an entity amends its FBT return that results in a change to RFBA amounts. This may mean that employees are required to adjust earlier year income tax returns and have other prior year liabilities and entitlements adjusted.

### Documentation checklist – Better Practice 5 – Prepare and review the FBT return and supporting processes

Maintaining records that include the documentation set out below will assist an entity to maintain an adequate audit trail to support its approach to preparing and reviewing its FBT return and supporting processes.

| <b>Documentation checklist</b>  |   |
|---|---|
|  | FBT workpapers  |
|   | Preparer certification(s)   |
|   | Reviewer certification(s)   |
|   | Documented outcomes from the general ledger codes review                        |
|   | Mid-year and quarterly data integrity reviews and interim FBT returns           |
|   | Pre-lodgment review documentation   |
|   | Post-lodgment review documentation  |
|   | Issues log and details of remedial action taken                                 |
|   | Independent review documentation  |
|   | Details of arrangements for notifying employees of amended RFBA's (if required) |

## Better Practice checklist – Prepare and review the FBT return and supporting processes

An entity that has established effective mechanisms for the preparation and review of its FBT return will have implemented some or all of the better practices identified in the following checklist. The list is not intended to be prescriptive, as the measures taken by individual entities will depend on a number of factors including its operating environment and the nature of its FBT obligations. Entities that can answer 'yes' to most of these questions are likely to have established effective mechanisms for preparing and reviewing their FBT return. If most of the answers are 'no', entities should consider whether there is an opportunity to review their existing FBT arrangements.

| Indicators of better practice  | Yes/No |
|--|--------|
| 1. Are arrangements in place designed to capture all benefits?   |        |
| 2. Are general ledger codes reviewed to determine whether all FBT items are captured?  |        |
| 3. Are records maintained that support all FBT transactions?   |        |
| 4. Are relevant declarations obtained before applying the otherwise deductible rule or other reductions in the taxable value of benefits?  |        |
| 5. Is FBT return data compared to operational data to verify the accuracy of the FBT return data and is FBT data is reconciled to general ledger code data? For example, is FBT data compared to fleet data that is used for operational purposes? |        |
| 6. Are there certifications for the preparation and review of the FBT return?  |        |
| 7. Where an external party is engaged to assist with the preparation or review of the FBT return, does that party complete the required certifications so there is a clear record of the activities that party has undertaken?                     |        |
| 8. Are quarterly or mid-year data integrity reviews undertaken?  |        |
| 9. Is a nominated individual or work area responsible for initiating and implementing review and improvement processes?  |        |
| 10. Is a pre-lodgment review of the FBT return undertaken annually?  |        |
| 11. Is a post-lodgment review of the FBT return undertaken annually?   |        |
| 12. Have FBT risks been formally linked to controls and are these controls tested periodically?  |        |
| 13. Is FBT administration considered as part of internal audit's work program?   |        |
| 14. Is there a central contact person or work area responsible to address issues, including questions raised by employees?   |        |
| 15. Is there a central issue log to record FBT issues?   |        |

## Review checklist

Performing a pre-lodgment or post-lodgment review provides a good opportunity for a detailed review of all data and processes to highlight areas for improvement that can be used in completing the following year's FBT return. It also provides useful background documentation in the event of staff turnover.

When using this checklist as part of the pre-lodgment review, less time may be spent on detailed reviews of processes and the identification of process improvements.

Entities should undertake the following steps to complete the checklist:

- a) for data items – determine whether the data for each benefit type was accurate and identify any corrections that are required
- b) for processes – determine whether the process worked effectively to enable the collation of data for each benefit type and identify areas for improvement
- c) note any items that will require an amendment to the FBT return, and
- d) determine any action that is required to improve processes.

This checklist is not intended to be exhaustive. Entities should therefore consider whether any additional reviews should be performed.



| Process/item   | Car fringe benefits | Tax-exempt body entertainment and meal entertainment fringe benefits | Car parking fringe benefits | Expense payment, property & residual fringe benefits | LAFHA & fringe benefits provided as a result of living away from home or relocation | Housing and board fringe benefits | Loan and debt waiver fringe benefits | Amendment to FBT return required | Action to improve process |
|--|---------------------|--|-----------------------------|--|---|-----------------------------------|--------------------------------------|----------------------------------|---------------------------|
| Data provided by third parties eg. salary packaging provider(s) and/or fleet provider(s)                                 |                     |  |                             |  |   |                                   |                                      |                                  |                           |
| Data provided by work areas  |                     |  |                             |  |   |                                   |                                      |                                  |                           |
| Data collated by FBT staff   |                     |  |                             |  |   |                                   |                                      |                                  |                           |
| Data collection and collation processes  |                     |  |                             |  |   |                                   |                                      |                                  |                           |
| Taxable value calculations   |                     |  |                             |  |   |                                   |                                      |                                  |                           |
| FBT calculations   |                     |  |                             |  |   |                                   |                                      |                                  |                           |
| Sign-off and review procedures   |                     |  |                             |  |   |                                   |                                      |                                  |                           |
| Documentation eg declarations  |                     |  |                             |  |   |                                   |                                      |                                  |                           |
| Benefits allocated to employees  |                     |  |                             |  |   |                                   |                                      |                                  |                           |
| RFBA calculations  |                     |  |                             |  |   |                                   |                                      |                                  |                           |
| Communication processes eg communications with salary packaging providers, fleet providers and employees (as applicable) |                     |  |                             |  |   |                                   |                                      |                                  |                           |
| Systems used to capture FBT data (both information technology systems and paper based systems)                           |                     |  |                             |  |   |                                   |                                      |                                  |                           |



## PART 2

# BETTER PRACTICES FOR MANAGING SPECIFIC BENEFIT TYPES

Better Practice Guide



# PART 2. BETTER PRACTICES FOR MANAGING SPECIFIC BENEFIT TYPES

## Introduction

This part of the Guide should be read in conjunction with the relevant legislation and the Tax Office publication, *Fringe Benefits Tax: A Guide for Employers* (NAT 1054) that can be found at [www.ato.gov.au](http://www.ato.gov.au).

## Types of Fringe Benefits

There are 13 types of fringe benefits. These are:

- a) car
- b) debt waiver
- c) loan
- d) expense payment
- e) housing
- f) living away from home allowance (LAFHA)
- g) airline transport
- h) board
- i) tax-exempt body entertainment
- j) meal entertainment
- k) car parking
- l) property, and
- m) residual.

## Administering fringe benefits

There are a number of common factors that are relevant to administering all fringe benefit types. Each of these factors is discussed below.

## Calculating FBT

FBT is calculated as follows:

$$\text{FBT} = \text{Taxable value of benefit} \times \text{gross-up rate} \times \text{FBT rate}$$

### *Taxable value of benefit*

The method for calculating the taxable value of a fringe benefit depends on the benefit type. Each benefit type has its own valuation rules. For some benefits, such as expense payment fringe benefits, the taxable value is generally equal to the amount of the private expenditure paid for or reimbursed. For other fringe benefits the entity may use a formula to calculate the taxable value.

The taxable value of a fringe benefit is calculated based on the GST inclusive value of the benefit, where applicable.

Further information on the calculation of the taxable value of each of the fringe benefits can be found in the applicable section of this Guide and in the Tax Office publication, *Fringe Benefits Tax: A Guide for Employers* (NAT 1054).

### *Gross-up rate*

There are two gross-up rates, the type 1 gross-up rate (2.1292) and the type 2 gross-up rate (1.9417). The gross-up rate applicable to fringe benefits depends on whether the provider of the benefit, or a member of the same GST group as the provider, is entitled to input tax credits for providing the benefit, or for the acquisition or importation of an item that results in the provision of a fringe benefit.

An entity may not be entitled to claim input tax credits if:

- a) the item is not subject to GST because it is out of scope, for example expenses incurred overseas
- b) the item is not subject to GST because it is specifically legislated as being GST-free, for example, medical services or fresh food, and/or
- c) the entity is not entitled to claim input tax credits in respect of the benefit because it is an input-taxed supply, for example, the supply of a housing fringe benefit.

The type 1 rate (2.1292) applies where the provider of the fringe benefit was entitled to claim input tax credits in respect of the item.

The type 2 rate (1.9417) applies where the provider of the fringe benefit was not entitled to claim input tax credits in respect of the item.

The gross-up rate is determined by whether or not the provider had an **entitlement** to claim input tax credits in respect of the item, not whether the provider actually claimed the input tax credits.

The gross-up rate applicable to each benefit type is as follows:

| Benefit Type   | Gross-up rate  | Comments  |
|--|--|---|
| Car fringe benefit   | Depends on whether GST was paid on the purchase/lease of the car   | * Refer below for further detail  |
| Tax-exempt body entertainment and meal entertainment fringe benefits | Depends on whether the provider was entitled to claim an input tax credit  | Where a purchase is a mixed supply, for example food purchased from a grocery store for a social event that includes GST-free food as well as food that is subject to GST, the gross-up rate is the type 1 gross-up rate (2.1292) |
| Expense payment, property and residual fringe benefits               | Depends on whether the provider was entitled to claim an input tax credit  |   |
| Car parking fringe benefit   | Depends on whether an entitlement to claim an input tax credit arises from acquiring the right to provide the benefit  | If the car parking is included as part of a building lease that is subject to GST, the gross-up rate is the type 1 gross-up rate (2.1292)   |
| LAFHA, LAFH benefits and benefits provided as a result of relocation | LAFHA: type 2 (1.9417)<br><br>LAFH benefits and benefits provided as a result of relocation: depends on whether the provider was entitled to claim an input tax credit | LAFHA will always be grossed-up at the type 2 gross-up rate (1.9417) because there is no GST on these allowances  |

| Benefit Type                         | Gross-up rate  | Comments  |
|--------------------------------------|--|---|
| Housing and board fringe benefits    | Housing: will generally be grossed-up at the type 2 rate (1.9417).<br><br>Board: Type 2 (1.9417) | Housing fringe benefits will generally be a type 2 benefit because the provision of residential premises is generally input taxed.<br><br>Board fringe benefits will always be grossed-up at the type 2 gross-up rate (1.9417) because the statutory values are unaffected by GST |
| Loan and debt waiver fringe benefits | Type 2 (1.9417)  | Grossed-up at the type 2 gross-up rate (1.9417) because these items are considered financial supplies and are input taxed   |

Further details on the applicable gross-up rates can be found in Taxation Rulings GSTR 2001/3, GSTR 2001/3A, TR 2001/2 and TR 2001/2A.

\* The gross-up rate applicable to car fringe benefits is based on whether input tax credits are available for GST paid on the purchase of the car or, in the case of a leased car, whether GST is included in the lease payments.

The gross-up rate will also depend on whether the car was purchased or hire purchased:

- a) pre 1 July 2000
- b) between 1 July 2000 and 22 May 2001, or
- c) after 22 May 2001.

Cars purchased and used overseas are likely to be the main circumstance under which the type 2 gross-up rate (1.9417) will apply to cars held by Australian Government entities, because there will be no Australian GST paid on their purchase.

Cars purchased or hired in Australia will generally be subject to GST and therefore the type 1 gross-up rate (2.1292) will apply.



An Australian embassy located in a foreign country is taken to be "Australia" for FBT and GST purposes. This should not impact on the FBT gross-up rate, because suppliers will not generally be carrying on business within the embassy, and therefore will not be required to charge Australian GST.



Further information on the gross-up rate applicable to each of the fringe benefit types can be found in the Tax Office publication, *Fringe Benefits Tax: A Guide for Employers* (NAT 1054) that can be found at [www.ato.gov.au](http://www.ato.gov.au).

### ***FBT rate***

For the FBT year ended 31 March 2006 the FBT rate is 48.5%.

## **Collating information**

To calculate the taxable value of fringe benefits, the entity must collect information in relation to the benefits provided.

Information on fringe benefits is generally collected from:

- a) salary packaging providers (in the case of packaged benefits)
- b) fleet managers
- c) work areas that maintain records of expenditure reimbursed or paid by the entity, and
- d) details contained in the general ledger.

Entities should establish procedures to identify where the information will be collected from and determine the form in which the information is to be provided.

### ***Salary packaging providers and other work areas***

Entities should liaise with the salary packaging provider and other work areas to agree on the process and timetable for the provision of the fringe benefit data.

### ***Review of the general ledger***

A number of Australian Government entities use the integrated credit management system (iCMS) for managing corporate credit cards.

Generally, under the iCMS, expenditure will be incurred using a corporate credit card and this will be coded to a clearing account. At the end of the month, each work area will be responsible for transferring the expenses from the clearing account to the correct general ledger code.

As part of this process, staff should be requested to enter details in the expense description to assist the FBT staff in reviewing general ledger codes.

## **Declarations and other documentation**

The taxable value of some benefits can be reduced if entities hold a declaration that complies with Tax Office requirements.

Set out below are three commonly used proforma declarations that incorporate RFBA notifications and certification processes to make them consistent with Australian Government practices. These declarations substantiate the extent to which the employee would have been able to claim an income tax deduction in relation to the benefit.

**The otherwise deductible declaration as shown at Figure 8 on page 63** is the most common form of declaration used to substantiate the amount that is otherwise deductible. There are a number of situations where this declaration is not required, including where:

- a) the benefit is incurred or used exclusively in the course of performing employment related duties
- b) the provision of the fringe benefit is covered by a recurring fringe benefit declaration (refer to the second declaration below)
- c) the employer has completed a no private use declaration (refer to the third declaration below)
- d) there is a requirement to keep a travel diary, or
- e) the requirement to keep a travel diary is waived because the employee is a member of an international aircrew.

**The second declaration at Figure 9 on page 64** is a recurring fringe benefit declaration. It is completed by the employee but is not required on an annual basis. It can apply to an expense payment, property or residual fringe benefit if:

- a) the fringe benefit is provided no later than five years after the day the declaration was made
- b) the deductible proportion of the benefit is not significantly less than the deductible proportion of the benefit for which the declaration was first provided (a difference of more than 10 percentage points is regarded as being significant), and
- c) is identical to the fringe benefit for which the declaration was first made.

**The third declaration at Figure 10 on page 64** is a no private use declaration that applies to certain expense payment fringe benefits and residual fringe benefits. This declaration may be used where an entity reimburses only employment-related expenses, or enforces a policy that benefits be used only for employment-related purposes. Unlike the other two declarations this declaration is completed by the employer.

**Figure 8: Otherwise deductible declaration**

**Otherwise deductible declaration**

I, \_\_\_\_\_  
*(Full name and employee AGS/ID number)*

declare that

\_\_\_\_\_

*{Show the nature of the expense, property benefit or residual fringe benefit}*

was provided to me by or on behalf of my employer during the period from \_\_\_\_\_ 20\_\_\_\_\_ to \_\_\_\_\_ 20\_\_\_\_\_

and I incurred the expenses/used the property for the following purpose(s)

\_\_\_\_\_

*{Please give sufficient information to demonstrate the extent to which you used the item for the purpose of earning your assessable income}*

I also declare that, had I purchased the item myself, I would have been entitled to an income tax deduction for \_\_\_\_\_% of the value of the benefit.

Signature: \_\_\_\_\_

Date: \_\_\_\_\_

Please note: Benefits may result in a reportable fringe benefit amount being reported on your payment summary. For details on reportable fringe benefit amounts refer to *{FBT Manual/reportable fringe benefit amount declaration}*.

Please return this form to: *{FBT contact}*.

**Figure 9: Recurring fringe benefit declaration**

**Recurring fringe benefit declaration**

I, \_\_\_\_\_ declare that  
*{name and employee AGS/ID number}*

\_\_\_\_\_

*{Show the nature of the expense, property benefit or residual fringe benefit}*

was provided to me by or on behalf of my employer during the period from  
\_\_\_\_\_ 20 \_\_\_\_\_ to \_\_\_\_\_ 20 \_\_\_\_\_

and I incurred the expenses/used the property for the following purpose(s)

\_\_\_\_\_

I also declare that, had I purchased the item myself, I would have been entitled to an income tax deduction for \_\_\_\_\_% of the value of the benefit.

I understand that this declaration is to apply to the above stated benefit and to any identical benefit for a period of up to five years from the date of this declaration or until the stated percentage decreases by more than 10 percentage points. This declaration will also be revoked if another recurring fringe benefit declaration is provided in respect of a subsequent identical benefit.

Signature: \_\_\_\_\_

Date: \_\_\_\_\_

Please note: Expense reimbursements may result in a reportable fringe benefit amount being reported on your payment summary. For details on reportable fringe benefit amounts refer to *{FBT Manual/Reportable fringe benefit amount notification}*

**Figure 10: No private use declaration**

**No private use declaration**

I, \_\_\_\_\_ on behalf of \_\_\_\_\_  
*{name of person authorised to make declaration} {name of entity}*

declare that the benefits described below and provided during the FBT year 1 April \_\_\_  
to 31 March \_\_ are benefits that, under the otherwise deductible rule, would have a taxable value of nil, because they are not used for any private purpose.

\_\_\_\_\_

*{show sufficient detail to enable identification of the benefit, for example, name of employee(s) and type of benefit}*

Signature: \_\_\_\_\_

Date: \_\_\_\_\_

Other declarations may be required to enable a reduction in the taxable value of other fringe benefits. Examples include reimbursement for an employee who uses his or her car for business purposes; overseas employment holiday transport; remote area holiday transport; employee interviews and employee medical tests. Proformas for these and other declarations can be found on the Tax Office website at [www.ato.gov.au](http://www.ato.gov.au).

## Communicating with employees

If the total taxable value of non-excluded fringe benefits provided to individual employees in a FBT year (1 April to 31 March) is more than \$1 000, entities must report the grossed-up taxable value of those benefits, the RFBA, on employees' payment summaries.

The gross-up rate used for RFBA reporting is always the type 2 gross-up rate (1.9417) irrespective of the gross-up rate used for FBT return reporting purposes.

Employees should be advised that the receipt of fringe benefits might result in a RFBA (if the total taxable value of all non-excluded benefits provided to that employee exceeds \$1 000 for the FBT year).

Employees should be notified of the potential RFBA implications before they receive fringe benefits. For example, an employee should be notified of the potential RFBA implications of home-garaging a car before the employee home-garages the car and an employee should be notified of the potential RFBA implications of receiving a LAFHA before receiving the allowance.

In some situations it may be possible for employees to be notified as part of ordinary business processes. For example, RFBA implications can be included on a vehicle running sheet; as part of employees' living away from home documentation; on a claim for reimbursement form; or on an otherwise deductible declaration form, as appropriate.

Further detail in relation to advising employees on the RFBA implications of receiving fringe benefits can be found under Better Practice 4 in this Guide or in the Tax Office publication, *Fringe Benefits Tax: A Guide for Employers* (NAT 1054), or *Reportable Fringe Benefits - Facts for Employees* (NAT 2836 05.2005).

The remainder of this Part provides better practice guidance in relation to those benefits that are commonly provided by many Australian Government entities. Fringe benefits relating to airline transport have not been included as it is not a benefit provided by Australian government entities. This Part is divided into seven sections as set out below. Benefit types are grouped together based on either a calculation methodology or because the benefits are similar in nature.

### Car fringe benefits

#### Tax-exempt body entertainment and meal entertainment benefits

#### Expense payment, property and residual fringe benefits

#### Car parking fringe benefits

#### LAFHA and fringe benefits provided as a result of living away from home or relocation

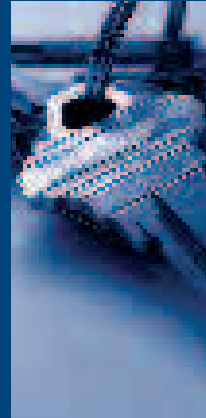
#### Housing and board fringe benefits

#### Loan and debt waiver fringe benefits



# SECTION I

## CAR FRINGE BENEFITS







# SECTION I

## CAR FRINGE BENEFITS



Tax Office: *Fringe Benefits Tax: A Guide for Employers* - Chapter 7

Legislative reference: FBTA Part III Division 2

### Introduction

Car fringe benefits generally account for the largest proportion of Australian Government entities' FBT liability. It is therefore important that entities have appropriate processes for the accurate capture and reporting of these benefits.

### Identifying car fringe benefits

FBT Managers in Australian Government entities generally collect car fringe benefit data from fleet providers, salary packaging providers and/or the work areas that have records of cars that are home-garaged or otherwise used for private purposes.

The following checklist is designed to assist entities in determining whether it has adequate systems for the identification and reporting of car fringe benefits and associated RFBA:

| Indicators of better practice  | Yes/No |
|--|--------|
| 1. Has the entity reviewed car fringe benefit data quarterly to determine whether systems for data collection are working effectively?   |        |
| 2. Has the entity reviewed the processes used by fleet management companies and salary packaging providers to gain assurance that the information they provide is correct?   |        |
| 3. Has the entity provided employees with guidelines on the details that are expected to be included in log books?   |        |
| 4. Has the entity advised employees who are salary packaging cars that the operating cost method of calculating the benefit can only be used to reduce private use if an accurate log book is maintained? If no log book is maintained then either the statutory formula method can be used, or the operating cost method can be used with a private use percentage of 100%. |        |
| 5. Has the entity advised employees of the RFBA implications of home-garaging a car or otherwise using a car for private purposes?   |        |

## Maintaining log books

To meet the requirements of the FBTA, as well as being an effective mechanism for collating required FBT data, a log book should include the following information:

- a) car details, including registration number
- b) the name of the driver
- c) the employee AGS/ID number of the driver\*
- d) date journey began
- e) date journey ended
- f) nights home-garaged\*
- g) odometer readings at the commencement and conclusion of each journey
- h) number of kilometres travelled by the car in the course of the journey
- i) a description of the purpose or purposes of the journey, and
- j) business and private kilometres travelled\*.

\* These items are not a legislative requirement, but may assist with collating data for FBT purposes.

**A sample record from a logbook is included at Figure 11 on page 69.**

To meet FBT legislative requirements, log books must be kept for a representative period of a minimum of 12 consecutive weeks. However, to enable the allocation of the taxable value of car fringe benefits to employees who used the car for private purposes, it is better practice for the log book to be maintained for the whole FBT year.

## Collating information

There are a number of data items required to calculate the taxable value of a car fringe benefit. For vehicles that are managed by a fleet provider, some vehicle data and FBT data will usually be collated by the fleet provider. However, to assist with FBT reporting, entities may still be required to undertake a number of tasks, such as:

- a) reviewing the data collated by the fleet provider for accuracy, including reviewing odometer records
- b) providing log books to employees to track employee use of the vehicle, and
- c) managing the fleet to meet operational requirements, for example, ordering cars, returning cars and transferring cars between employees.

**Figure 11 – Sample record from a logbook**

|                      |                        |                    |                    |                     |                  |                  |                      |  |                    |                     |  |  |
|----------------------|------------------------|--------------------|--------------------|---------------------|------------------|------------------|----------------------|--|--------------------|---------------------|--|--|
| Entity name:         | Department of XXX      |                    |                    |                     |                  |                  |                      |  |                    |                     |  |  |
| FBT year ended:      | 31 March 2006          |                    |                    |                     |                  |                  |                      |  |                    |                     |  |  |
| Make:                | Holden                 |                    |                    |                     |                  |                  |                      |  |                    |                     |  |  |
| Model:               | Commodore              |                    |                    |                     |                  |                  |                      |  |                    |                     |  |  |
| Registration number: | YYY000                 |                    |                    |                     |                  |                  |                      |  |                    |                     |  |  |
| Employee name        | Employee AGS/ID number | Date journey began | Date journey ended | Nights home-garaged | Opening odometer | Closing odometer | Kilometres travelled | Description of journey                 | Private kilometres | Business kilometres |  |  |
| Employee 1           | 123456                 | 3/4/06             | 3/4/06             | 0                   | 23,450           | 23,470           | 20                   | Office to home                         | 20                 | 0                   |  |  |
| Employee 1           | 123456                 | 4/4/06             | 4/4/06             | 1                   | 23,470           | 23,492           | 22                   | Home to local shops and then to office | 22                 | 0                   |  |  |
| Employee 2           | 123457                 | 4/4/06             | 4/4/06             | 0                   | 23,492           | 23,497           | 5                    | Attend meeting at Department of YYY    | 0                  | 5                   |  |  |
| Employee 3           |                        |                    |                    |                     |                  |                  |                      |  |                    |                     |  |  |

## Calculating the taxable value of car fringe benefits

FBT is payable on the taxable value of a fringe benefit. The taxable value of car fringe benefits can be calculated using the statutory formula method or the operating cost method. The choice of method can be made on a car-by-car basis each FBT year.

In deciding what method to use to calculate the taxable value of car fringe benefits, entities may consider which method:

- a) is easier to administer (generally this is the statutory formula method), and
- b) results in the lower FBT liability.

A separate calculation is required for each car held during the FBT year. For example, two separate calculations will be required when a car is replaced by another during the year. However, only one calculation is required for each car, even if the car is driven by more than one employee during the year.

### *Statutory formula method*

The statutory formula method applies a formula in calculating the taxable value of a car fringe benefit:

$$\text{Taxable value} = \frac{(A \times B \times C) - E}{D}$$

Where

A = the base value of the car

B = the statutory percentage

C = the number of days in the FBT year when the car was used or available for private use by employees (private use days)

D = the number of days in the FBT year (365 or 366 in a leap year)

E = the employee contribution

### *Base value*

The base value of a car is generally the price paid for the car by the owner/lessor, including dealer delivery charges and any accessories not required for business use. The base value does not include registration or stamp duty charges. Where the car has previously been held by an associated entity, the base value will be determined by the amount paid when the car was first held by the associated entity.

The base value may be reduced by one third in the FBT year that commences after the fourth anniversary of the date on which the car was first owned or leased by the provider, or an associated entity.

Australian government entities are associates. Therefore, if an employee transfers a novated lease between Australian Government employers, the base value of the car is the value at the earliest date

it was held by any Australian Government employer. If an employee transfers a novated lease to an Australian Government entity from an entity that is not an associate of an Australian Government entity (for example, a private sector entity) the base value of the car is the market value at the time of transfer. Australian Government entities will need to obtain a market value of the car as at the date the car is first provided by them (usually the date the employee commences employment).

#### *Statutory percentage*

The statutory percentage depends on the number of kilometres travelled during the FBT year. If a car is owned for only part of the FBT year, the statutory percentage is based on the annual equivalent of the kilometres travelled.

The statutory percentages for the FBT year ended 31 March 2006 are:

| Total kilometres travelled during the year | Statutory percentage |
|--|----------------------|
| Less than 15,000                           | 26%                  |
| 15,000 to 24,999                           | 20%                  |
| 25,000 to 40,000                           | 11%                  |
| Over 40,000                                | 7%                   |

#### *Annualising kilometres*

Where a car is only held by an entity for part of a FBT year, such as the year of acquisition, the year of disposal or the year that a novated lease reverts to the employee, it is necessary to calculate the annual equivalent of kilometres travelled in that FBT year.

The annual equivalent of kilometres travelled in that FBT year is calculated as:

$$\frac{\text{Actual kilometres travelled during the period held in the FBT year} \times 365^*}{\text{Days held in the FBT year}}$$

\*(or 366 in a leap year)

To determine the annual equivalent of kilometres travelled, entities must know the date that the car was first held by that entity.

The period that a car was held by an entity can have a significant impact on the annualised kilometres and the statutory fraction that applies to a car fringe benefit. For example, if a car was held by an employer from 15 March and the car travelled 1,000 km before FBT year end (31 March), the annualised kilometres are 21,470, resulting in a statutory percentage of 20%. If instead the car was not held until 20 March, the annualised kilometres are 30,416, resulting in a statutory fraction of 11%.

Where an employee salary packages a car, the following steps generally occur:

1. the employee orders the car
2. the fleet provider prepares the leasing documentation
3. the employer signs the lease
4. the employee signs the lease
5. the fleet provider signs the lease
6. the employee collects the car from the dealer
7. the salary packaging provider commences the packaging process.

In this situation, the car is generally held by the employer from the date that the employee collects the car from the dealer.

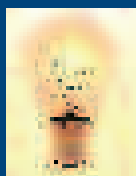
If the documentation is not signed before the employee collects the car, the date that the car is held by the entity can become unclear because the car may not legally be held by the entity at the date it is collected from the dealer.

Better practice is to ensure that all parties have signed the leasing documentation before the car is made available for use by the employee. That way the start date for annualising kilometres is the date that the employee collects the car.

Employees should be advised that it is in their interest to note the start date, monitor the kilometres they have travelled in the car and adjust their FBT contributions accordingly.

#### *Private use days*

When calculating the taxable value of a car fringe benefit using the statutory formula method, details of the number of private use days are required. Private use days can be reduced by the days that the car was not available for private use. To be counted as a day when the car is not available for private use, there must have been no actual or deemed private use on that day, with a day commencing and ending at midnight.



For the purposes of applying the statutory formula method, situations where a car is taken not to be available for private use include:

- a) days when the car is at a smash repairer being repaired following an accident (other than the day when the car is driven to be repaired and the day when the car is driven home), and
- b) days when the car is parked at the business premises (other than the day when the car is driven from the employee's home or sleeping accommodation to the business premises and the day when the car is driven from the business premises to the employees home or sleeping accommodation).



For the purposes of applying the statutory formula method, situations where a car is taken to be available for private use include:

- a) days when the car is garaged at the employees home or other sleeping accommodation, and
- b) days when the car is parked at the airport or a place other than the employer's business premises and the employee has custody and control of the car. For example, the employee or employee's associate has the keys.

Entities are responsible for calculating private use days. To assist in meeting this requirement, entities should ask employees to substantiate days that the car was not available for private use. For example, employees could be asked to provide a copy of a repair invoice showing the dates that the car was being repaired and therefore not available for private use.



When using the statutory formula method for calculating car fringe benefits, any actual or deemed private use on a day makes that day a private use day. For example, if a fleet vehicle is returned in the afternoon and a new one collected, the travel from home in the morning counts as a private use day for vehicle 1 and the travel home in the evening counts as a private use day for vehicle 2. As a result, there can be more private use days in a FBT year than there are days in the FBT year. To reduce the FBT liability, fleet cars could be returned one day and, if convenient, the new car collected the next day.

#### *Employee contribution*

The employee contribution is any after tax contribution made by the employee. This includes direct contributions made by the employee to the entity as well as any substantiated payments made by the employee to a third party in respect of the car, such as the payment of petrol, cleaning or repair expenses, where such expenses are not reimbursed by the entity.

Employees should be required to provide documentation, such as receipts, to evidence payments they have made to third parties except in the case of fuel and oil when a fuel and oil declaration can be provided.

Note: employee contributions made directly to the entity are considered payments of consideration for GST purposes and the entity must record the amount in its Business Activity Statement and remit one eleventh of the contribution as GST.

### *Operating cost method*

The operating cost method involves applying a formula in calculating the taxable value of a car fringe benefit:

$$\text{Taxable value} = (\text{A} \times \text{B}) - \text{C}$$

Where:

- A = the total operating costs
- B = the percentage of private use
- C = the employee contribution

### *Total operating costs*

Total operating costs include:

- a) repairs, but not smash repair expenses met by an insurance company or another person legally responsible for the damage to the car
- b) maintenance
- c) fuel
- d) registration and insurance costs
- e) leasing costs
- f) deemed depreciation (for cars that are owned or under hire purchase), and
- g) deemed interest (for cars that are owned or under hire purchase).

The operating costs include all the operating costs for the car, whether incurred by the entity or someone else.

Further details on calculating operating costs can be found in Chapter 7 of the Tax Office publication, *Fringe Benefits Tax: A Guide for Employers* (NAT 1054).

### *The percentage of private use*

The percentage of private use is calculated as:

$$\frac{\text{A}}{\text{B}} \times 100\%$$

Where:

- A = the estimate of private kilometres travelled during the period that the car was held by the entity (based on details recorded in a log book and odometer records).
- B = the total kilometres (both business and private) actually travelled by the car during the same period.

### *Employee contribution*

The employee contribution is any after tax contribution made by the employee. This includes direct contributions made by the employee to the entity as well as any substantiated payments made by the employee to a third party in respect of the car, such as the payment of petrol, cleaning or repair expenses.

Note: employee contributions made directly to the entity are considered payments of consideration for GST purposes and the entity must record the amount in its Business Activity Statement and remit one eleventh of the contribution as GST.



## Allocating taxable value

Where a car is used privately, including being home-garaged by a number of employees during the FBT year, the taxable value of the benefit must be allocated to those employees. For RFBA purposes, the allocation can be done on any reasonable basis.<sup>14</sup> The use of a kilometres travelled basis, nights home-garaged basis or a weighted average of the two, could be regarded as reasonable, are easy to administer and easy to explain to employees who have questions about the allocation basis used. The basis of allocation is an entity decision and should be communicated to employees before they home-garage a car.

## Vehicles commonly provided by Australian Government entities

The following types of vehicles are commonly provided by Australian Government entities:

- a) salary packaged vehicles
- b) executive vehicle scheme (EVS) cars
- c) pool cars
- d) short-term hire cars hired from a fleet provider
- e) cars hired from Comcar or a commercial car hire company
- f) vehicles not defined as cars in the FBTA
- g) utilities designed to carry less than one tonne where the only private use is home to work and work to home travel
- h) cars for use by an employee while the employee is on call, and
- i) cars that are home-garaged because there is insufficient security on business premises.

There are a number of better practices that entities could apply in managing the FBT processing and reporting for each of the commonly provided vehicle types.

### *Salary packaged vehicles*

Given the concessional FBT treatment afforded to car fringe benefits, packaging car fringe benefits is a reasonably common practice for employees of Australian Government entities. The FBT attributable to salary packaged cars is ultimately borne by the employee through a salary packaging arrangement. Entities should therefore provide the employee with the opportunity to minimise the FBT liability in respect of the packaged car.

This can be done by allowing employees the option of maintaining a log book. If a log book is maintained then entities can use the calculation method that results in the lower taxable value for the benefit. As a rule of thumb, where business travel exceeds 70% of total travel, the use of the operating cost method will result in a lower taxable value for the car fringe benefit. Depending on the value of the car, and the total kilometres travelled, even where the business use percentage is less than 70%, the use of the operating cost method may result in a lower taxable value.

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<sup>14</sup> The term "reasonable" is not defined and has its ordinary meaning.

A log book must be maintained for a representative period of 12 consecutive weeks during the applicable FBT year, the log book year. A log book can be used as a basis for calculating the business use percentage for up to five FBT years, being the log book year and a further four consecutive FBT years, provided there is no major change in the pattern of use of the car. An increase or decrease of 10% in the business use of a car will generally be considered a major change in the pattern of use of the car. The log book can also be used for a replacement car.

Employees should provide the log book to the entity within 21 days of the end of the FBT year to enable the entity to calculate the FBT payable on the car fringe benefit.

Those employees who anticipate that they will undertake minimal business travel may prefer not to maintain a log-book for 12 weeks. In that case, the statutory formula method will generally be used to calculate the taxable value of the car.

#### *Salary packaging a vehicle other than a car*

Employees may request to salary package a vehicle that is not defined as a car for FBT purposes. For example, a motor cycle or a utility designed to carry one tonne or more. Such benefits will not be taxed as car fringe benefits, but are considered to be residual fringe benefits. Such vehicles will be exempt if they are used for only work-related travel and other travel that is minor, infrequent and irregular (in accordance with section 47(6) FBTA). Australian Government entities should be cautious in enabling employees to package such vehicles because it is difficult for entities to monitor the use of the vehicle and therefore be satisfied that the section 47(6) exemption applies.

#### *Salary packaging an exempt car benefit*

Employees may also request to package an exempt car benefit such as a utility or a panel van designed to carry less than one tonne that is used only for work-related and other minor, infrequent and irregular private travel (exempt under section 8 FBTA). A discussion of the FBT treatment of such vehicles is included below. Australian Government entities should be cautious in enabling employees to package vehicles purporting to fall within the section 8 exemption because it is difficult for entities to monitor the use of the vehicle and therefore be satisfied that the section 8 exemption applies.

#### *Estimating kilometres travelled*

Employees that salary package a car using the statutory formula calculation method are required to accurately estimate the kilometres that will be travelled during the year so that their FBT deductions can be determined. Salary packaging providers often provide a 'ready reckoner' that enables employees to track kilometres travelled and adjust the contribution rate, if required. Where entities provide salary packaging in-house they may consider developing a similar ready reckoner. **An example ready reckoner is provided at Figure 12 on page 80.**

### ***Executive vehicle scheme cars***

The executive vehicle scheme (EVS) is used by a number of Australian Government entities. It is a scheme under which Senior Executive Service (SES) and equivalent officers are provided with a fully maintained car.

Entities generally do not require log books to be maintained for EVS cars, but there are a number of reasons why entities may consider maintaining log books for EVS cars:



Depending on the amount of business travel undertaken by a SES officer, it may reduce the entity's FBT liability if the SES officer keeps a log book.

Where EVS cars are used by other staff members for business travel, a log book is useful to identify the driver of the vehicle in the event of an accident or if a speeding fine or parking infringement notice is issued in respect of the car.

If several employees use an EVS car for private use in a FBT year, such use should be recorded and the taxable value of the car fringe benefit allocated to all employees who used the car for private purposes. For example, if an EVS car is home-garaged at various times by a number of employees, a log book or similar record should be maintained for the whole FBT year to enable the allocation of the benefit to the relevant employees.

Some Australian Government entities have taken the approach of offering to cash out the EVS arrangement. The total cost of providing the car, including FBT, has been calculated and SES officers are offered the option of keeping an EVS car or receiving an allowance in lieu. If the amount is paid as an allowance then it is taxed under the PAYG provisions and is therefore not subject to FBT. If they so choose, the SES officer can then salary package a car in accordance with the entity's salary packaging policy.

### ***Pool cars***

If pool cars are home-garaged or otherwise used privately, it is important that the log book is maintained for the whole FBT year. This enables the taxable value of the car fringe benefit to be allocated between employees who use the car for private purposes.

A log book can also be used to identify the driver of the car in the event of an accident or if a speeding fine or parking infringement notice is issued in respect of the car.

Some Australian Government entities have chosen not to use pool cars and use hire cars or taxis for business purposes. As hire cars will generally not be home-garaged, there may be no need to maintain log books for these vehicles for FBT reporting purposes.

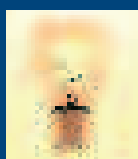
Note: If a car is hired for a period exceeding 3 months it is treated as a car fringe benefit. Further discussion on the FBT treatment of hire cars follows.

### ***Hire cars***

Section 7(7) FBTAA provides that hire cars, such as Comcar cars or cars hired from a commercial hiring company, are not covered by the car fringe benefit provisions unless there are successive hiring

periods that result in a substantial continuity of hiring the car. If entities hire a car for less than 3 months, they are not considered to 'hold' the car and therefore it will not result in a car fringe benefit.

The facts of each case must be examined to determine whether there is substantial continuity of hiring the car that amounts to a hiring period of 3 months or more. The following two examples demonstrate this point.



Example 1: A car is hired for a total of 4 months from February until May. This car should be treated as a car fringe benefit even though the car is only hired for 2 months during the FBT year. When looking at the whole hire period there is substantial continuity of hiring exceeding 3 months.

Example 2: A car is hired for 2 months and then returned for 3 weeks and then re-hired for another 2 months. This car should be treated as a car fringe benefit even though the car is hired for less than 3 months each time. When looking at the total hire periods, there is substantial continuity of hiring exceeding 3 months.

Cars that are hired for periods that do not result in substantial continuity of hiring of 3 months or more are taxed under the expense payment fringe benefit provisions (if the employee is reimbursed the cost of hiring the car) or the residual fringe benefit provisions (if the hiring contract is in the employer's name).

#### ***Vehicles not defined as a car***

There are certain vehicles that are not within the section 136(1) FBTAA definition of a car, for example, a truck designed to carry one tonne or more. The private use of these vehicles will not result in a car fringe benefit, but it may result in a residual fringe benefit.

#### ***Taxis, panel vans and utilities designed to carry less than one tonne***

Section 8 FBTAA defines exempt car benefits. The private use of a taxi, panel van, utility or other commercial vehicle (that is, one not designed principally to carry passengers) will be an exempt benefit if the private use is limited to:

- travel between home and work
- travel that is incidental to travel in the course of performing employment-related duties, and
- non-work-related use that is minor, infrequent and irregular (for example, occasional use of the vehicle to remove domestic rubbish).

If the private use of these cars exceeds the limits, for example, if a vehicle referred to in section 8 of the FBTAA was used regularly on weekends to go to the local shops, all private travel (including home to work and work to home travel) will be subject to FBT in accordance with the car fringe benefit provisions.

The Addendums to Taxation Ruling MT 2024 contain a list of vehicles that are eligible for this exemption. The entire ruling should be read to assist in correctly interpreting the Addendums.

#### ***Car used while an employee is on call***

When using the operating cost method and classifying a journey between home and work as either private or business, the fact that an employee may travel to and from work while on call would not ordinarily alter the character of that travel. That is, generally it remains private travel. For example, if an information technology officer is called out to their regular workplace to fix a computer network, the employee does not commence employment duties until arriving at the place of work and so the travel from home to work is treated as private travel.

This may differ if the employee starts employment duties immediately after being called out. For example, if there is a disaster and an emergency services officer uses a hands-free mobile phone to issue directions to other staff while driving to the place of work, the travel from home to work may be classified as work-related travel.

The treatment may also differ if the employee is required to travel to a work site that is not a regular workplace in response to a call out. For example, if the emergency services officer in responding to a disaster was required to travel to the residence of a member of the public.

Further details in relation to the FBT treatment of cars used by employees while they are on call are included in Chapter 7 of the Tax Office publication, *Fringe Benefits Tax: A Guide for Employers* (NAT 1054).

Further information in relation to the classification of home to work travel is provided by Taxation Ruling MT 2027.

#### ***Cars that are home-garaged because there is insufficient security on business premises***

Home-garaging a car because there is insufficient security on business premises does not alter the character of the travel to and from work, that is, it remains private travel.

Figure 12 – Example 'ready reckoner' for estimated kilometres travelled

| Data | A          | B                 | C                | D            | E                  | F                | G             | H             | I                  | J   |
|------|------------|-------------------|------------------|--------------|--------------------|------------------|---------------|---------------|--------------------|---|
| 1    | Base value | Date first held * | Opening odometer | Current date | Days not available | Current odometer | Kms travelled | Annualised km | Statutory fraction | FBT that should have been contributed YTD |
| 2    |            |                   |                  |              |                    |                  |               |               |                    |   |
| 3    | 35,000     | 1/04/2005         | 0                | 31/12/2005   | 3                  | 24,555           | 24,555        | 32,591        | 0.11               | 2,962.75                                  |
| 4    |            |                   |                  |              |                    |                  |               |               |                    |   |

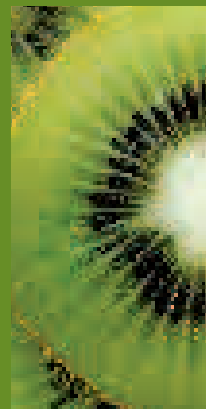
\* Complete date first held if purchased during this FBT year, otherwise enter the first day of FBT year eg 1/4/05  
 # Odometer reading on first day of FBT year or date first held, whichever is later

| Formulae | Base value | Date first held * | Opening odometer | Current odometer | Days not available | Current odometer | Kms travelled | Annualised km     | Statutory fraction  |
|----------|------------|-------------------|------------------|------------------|--------------------|------------------|---------------|-------------------|---|
|          | 35,000     | 1/04/2005         | 0                | 31/12/2005       | 3                  | 24,555           | =F3-C3        | =G3*365/(D3-B3+1) | =IF(H3<15000,0.26,(IF(H3<25000,0.2,(IF(H3>40000,0.07,0.11)))))) |

\* Complete date first held if purchased during this FBT year, otherwise first day of FBT year eg 1/4/05  
 # Odometer reading on first day of FBT year or date first held, whichever is later

**FBT that should have been contributed year to date**  
 =A3\*13\*(D3-B3+1-E3)/365\*2.1292\*0.485

SECTION 2  
TAX-EXEMPT BODY  
ENTERTAINMENT AND  
MEAL ENTERTAINMENT  
FRINGE BENEFITS

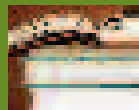






## SECTION 2

# TAX-EXEMPT BODY ENTERTAINMENT AND MEAL ENTERTAINMENT FRINGE BENEFITS



Tax Office: *Fringe Benefits Tax: A Guide for Employers* - Chapter 15

Legislative reference: FBTAA Part III Division 10

### Introduction

Most, if not all, Australian Government entities provide food and/or drink to their employees, ranging from morning teas provided to small groups of employees to hosting a Christmas party for all employees. Determining whether a fringe benefit has been provided as a result of providing food and drink to employees is therefore a situation faced by most entities.

Australian Government entities at times also provide some recreation entertainment to their employees, or someone else provides recreation entertainment to their employees.

The FBT treatment of entertainment provided by Australian Government entities will depend on their income tax status. Australian Government entities will be either:

- a) income tax-exempt
- b) income tax-exempt but pay income tax equivalents, or
- c) income tax paying in accordance with Australian income tax laws.

The majority of Australian Government entities are income tax-exempt. Therefore, this part of the Guide is written for income tax-exempt entities, including those entities that pay income tax equivalents. It provides guidance to assist in understanding when the provision of food, drink or recreation will result in a tax-exempt body entertainment benefit.

Those Australian Government entities that are required to pay income tax should refer primarily to Chapter 14 of the Tax Office publication, *Fringe Benefits Tax: A Guide for Employers* (NAT 1054) and Taxation Rulings TR 97/17 and TR 97/17A for guidance on the FBT treatment of entertainment provided by them.

In determining how to treat the provision of food and drink it is necessary to first consider whether or not the benefit is entertainment and, if it is entertainment, whether or not it is a tax-exempt body entertainment fringe benefit.

If the benefit is not a tax-exempt body entertainment benefit, it is necessary to decide whether it is an expense payment, property or residual benefit.

It is also necessary to consider whether the benefit provided is able to be treated as a exempt property benefit or exempt minor benefit.

Australian Government entities have the option of valuing entertainment provided by way of food, drink and associated accommodation or travel as 'meal entertainment fringe benefits'.

## Legislation and Tax Office guidance

The term 'entertainment' is defined in section 32-10 of the *Income Tax Assessment Act 1997* as:

- a) entertainment by way of food, drink or recreation, or
- b) accommodation or travel<sup>15</sup> to do with providing entertainment by way of food, drink or recreation.

This definition is applied in determining when entities have provided tax-exempt body entertainment benefits. Tax-exempt body entertainment fringe benefits may include a food and drink component and a recreation component.

### *Provision of food and drink*

The Tax Office has issued guidance documents to assist in understanding what food and drink entertainment means, including Taxation Rulings IT2675, TR 97/17 and TR 97/17A<sup>16</sup>. These rulings highlight the issues that entities face in determining whether an event constitutes the provision of entertainment.

The relevant legislative provisions, tax rulings and other Tax Office guidance require judgments to be made on a case by case basis, having regard to the particular circumstances of each activity.

In order to determine when food and drink provided to a person results in entertainment, it is necessary to examine all the circumstances surrounding the provision of the food or drink, including:

- a) **why** is the food or drink being provided? This is a purpose test. For example, food or drink provided for the purposes of refreshment does not generally have the character of entertainment, whereas food or drink provided in a social situation where the purpose of the function is for employees to enjoy themselves has the character of entertainment
- b) **what** type of food or drink is being provided? Morning and afternoon teas and light meals are generally not considered to be entertainment. However, as light meals become more

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<sup>15</sup> The cost of taxi travel by an employee from their place of work to a social function at a restaurant or function centre forms part of the cost of entertainment and is not covered by the section 58Z exemption for taxi travel where the employer has elected to use the 50/50 or 12 week register method available under the meal entertainment provisions.

<sup>16</sup> These rulings indicate whether or not circumstances constitute the provision of food and drink entertainment and whether a FBT liability arises. Care should be taken by Australian Government entities in interpreting TR 97/17 if an entity uses the '50/50' method for calculating tax-exempt food and drink entertainment. When using the '50/50' method, entities should include items marked as a 'Y' in the 'Meal Entertainment' column not just those that are marked as a 'Y' in the 'Tax-exempt body - FBT' column.

elaborate, they take on more of the characteristics of entertainment. The reason for this is that the more elaborate a meal, it becomes more likely that entertainment arises from consuming the meal

- c) **when** is the food or drink being provided? Food or drink provided during work time, during overtime or while an employee is travelling is less likely to be entertainment. This is because in the majority of these cases, food provided is for sustenance rather than an entertainment purpose. However, this depends on whether the entertainment of the person is the expected outcome of the provision of the food or drink. For example, a staff social function held during work time still has the character of entertainment, and
- d) **where** is the food or drink being provided? Food or drink provided on the employer's business premises or at the usual place of work of the employee is less likely to have the character of entertainment. However, food or drink provided in a function room, hotel, restaurant, café, coffee shop or consumed with other forms of entertainment is more likely to have the character of entertainment. This is because the provision of the food or drink is less likely to have a work-related purpose.

None of these factors on their own will determine if the food and drink provided is meal entertainment, however (a) and (b) are considered the more important factors.

### Activities that are not considered to be the provision of food and drink entertainment

The activities set out below are work functions commonly undertaken by Australian Government entities. These activities are **not** considered to be the provision of tax-exempt body entertainment fringe benefits.

- a) morning tea or light lunch, without alcohol<sup>17</sup>, provided on business premises acknowledging a business milestone, at a planning day or at a Minister's or Secretary's/CEO's address
- b) morning tea or light lunch provided on business premises, held for a visiting delegation, attended by a number of employees and where business discussions are held
- c) light lunch, without alcohol, provided on business premises, at a planning day, seminar<sup>18</sup> or training session
- d) light breakfast served prior to a seminar, planning day or training session
- e) light lunch, without alcohol, provided on business premises during a meeting with a third party, and
- f) light take-away food, without alcohol, ordered in for lunch or dinner while working on a project with a specific deadline.

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<sup>17</sup> The provision of alcohol with food and drink will generally mean that the function is considered tax-exempt body entertainment. However, it is important that the facts of each case are analysed, because there are some situations, such as when an employee is travelling, where the provision of a moderate amount of alcohol does not result in the meal being considered tax-exempt body entertainment.

<sup>18</sup> Seminars are defined in section 32-35 and 32-65 of the *Income Tax Assessment Act 1997* and must go for at least 4 hours excluding breaks.

## Activities that are considered to be the provision of food and drink entertainment

The activities below are common functions undertaken by Australian Government entities that **are** considered to be the provision of food and drink entertainment:

- a) payment of a meal at a restaurant attended by non-travelling employees and third parties
- b) entertaining visiting foreign dignitaries
- c) entity milestone anniversary celebrations, and
- d) social functions to announce a major new initiative.

## Calculating the taxable value of the food and drink component of tax-exempt body entertainment

The taxable value of tax-exempt body food and drink entertainment fringe benefit is the actual expenditure incurred by entities for the benefit of employees, or an associate of an employee. In calculating the taxable value of a tax-exempt body entertainment fringe benefit there is no reduction for contributions that are made by employees.

If it is not possible to easily determine the actual expenditure for each employee, a 'per head' basis of apportionment may be used.

Alternatively, an election can be made to value the food, drink and associated accommodation or travel as a meal entertainment fringe benefit. If this election is made, the per head basis of apportionment is not relevant.

### *Situations when the provision of food and drink will be an exempt benefit*

There are only very limited circumstances under which an exemption will apply to the provision of food and drink.

#### *Property benefit exemption*

Where food or drink is provided by a tax-exempt body and it is not tax-exempt body entertainment, it will be a property benefit. Where the food and drink (which is a property benefit) is provided to, and consumed by, the employee on business premises on a working day it is exempt from FBT. However, the exemption only applies to the food and drink provided to an employee. Food and drink provided to an associate of an employee in these circumstances is still subject to FBT.

#### *Minor benefits exemption*

Depending on the cost and standard of the food and drink entertainment provided, the benefit may qualify for the minor benefits exemption. As well as the general criteria for deciding whether a minor benefit should be treated as an exempt benefit, for tax-exempt bodies the exemption is available only where:

- a) the provision of the entertainment is incidental to the provision of entertainment to outsiders and does not consist of a meal, other than light refreshments, or

- b) the entertainment is provided to an employee, or an associate of the employee, on eligible premises, solely as a means of recognising the special achievements of the employee in a matter relating to the employment of the employee.

To qualify for the minor benefit exemption, the benefit must be less than \$100 in value per employee.

The criteria for deciding if it would be reasonable to treat the benefit as an exempt benefit are:

- a) the frequency and regularity with which benefits similar or identical to the minor benefit (or benefits given in connection with the minor benefit) are provided, that is, the more frequently and regularly small benefits of a similar kind are provided, the less likely they are to qualify as exempt benefits
- b) the amount that would be the sum of the taxable values of the minor benefit and other similar or identical benefits if they were treated as fringe benefits. As with the previous criterion, the greater the cumulative value of small benefits, the less likely it is they may qualify as exempt benefits
- c) the likely total taxable value of the minor benefit and other associated benefits (that is, those provided in conjunction with the minor benefit, for example, accommodation)
- d) the practical difficulty in determining what would be the taxable value of the benefit and any associated benefits if they were treated as fringe benefits. This would include consideration of the difficulty for entities in keeping the necessary records in relation to the benefits, and
- e) the circumstances in which the minor benefit and any associated benefits are provided.

### ***Meal entertainment fringe benefits***

Where tax-exempt body entertainment fringe benefits arise from the provision of food, drink and associated accommodation and travel, an entity may choose to value these fringe benefits as meal entertainment fringe benefits. If this election is made **all** fringe benefits arising from the provision of meal entertainment during the FBT year must be classified as meal entertainment fringe benefits.

There are two methods for calculating the taxable value of meal entertainment fringe benefits:

- a) the 12 week register method: This method is based on the percentage of food and drink entertainment provided to employees and their associates as evidenced by a 12 week register. The register must be maintained for a representative period. It is not appropriate to maintain the register for a 12 week period when there are very few entertainment activities being provided, or
- b) the 50/50 method: Under this method, the taxable value is equal to 50% of total food and drink entertainment expenditure relating to employees and their associates as well as third parties.

If an election is made to classify meal entertainment as a meal entertainment fringe benefit neither the property benefits exemption, the minor benefits exemption or any other exemption will apply.

If entities choose either of these valuation methods, they should record the taxable value in the meal entertainment row of the FBT return. Otherwise entities should record the value in the tax-exempt body entertainment row of the FBT return.

In considering which valuation method to use, an Australian Government entity should consider factors such as:

- a) who is entertainment provided to? (employees, associates or clients)
- b) how often is entertainment provided?
- c) the approach that is easiest to administer, and
- d) the approach that results in the lowest FBT liability.

#### *Actual expenditure*

Calculating taxable value based on actual expenditure may be most appropriate when:

- a) entities provide the majority of the food and drink component of tax-exempt body entertainment to persons other than employees and their associates and the value of the food and drink provided at individual events or the total value of all food and drink provided during the FBT year is significant
- b) records of attendees are available, and
- c) entities provide the food and drink component of tax-exempt body entertainment infrequently.

For example, entities that host a small number of social functions per FBT year, attended predominantly by persons other than employees and their associates, may consider calculating taxable value based on actual expenditure if the administrative costs of keeping records of attendees are expected to be minimal.

When deciding to calculate the taxable value based on actual expenditure, entities should have regard to the likely expenditure on tax-exempt body food and drink entertainment as well as the availability of data relating to attendees. For example, if an entity hosted two events in the FBT year, attended primarily by persons other than employees and their associates, where the total expenditure was \$500 and records of attendees are incomplete, the entity may choose to use the 50/50 method. Alternatively, if expenditure was more significant, the entity may choose to calculate taxable value based on actual expenditure if the reduction in the FBT liability would outweigh the administrative costs of maintaining records of who attended the function.

If entities use the actual method to calculate the taxable value of tax-exempt body entertainment, the entity can claim input tax credits for the GST paid on the proportion of such entertainment that is subject to FBT.

#### *12 week register method*

Calculating taxable value using the 12 week register method may be most appropriate when:

- a) entities provide the majority of the food and drink component of tax-exempt body entertainment to persons other than employees and their associates
- b) records of attendees are available for a representative 12 week period, and
- c) entities provide the food and drink component of tax-exempt body entertainment frequently throughout the FBT year. If entities provide tax-exempt body food and drink entertainment regularly throughout the FBT year, primarily to persons other than employees and their associates, the 12 week register method will generally require less administration than calculating taxable value based on actual expenditure. This is because the register percentage calculated based on a 12 week representative period can be applied for the remainder of the FBT year without the need to maintain the detailed records that would be required if the taxable value was based on actual expenditure. The 12 week register can continue to be used for a further four consecutive years provided there is less than a 20% increase in total expenditure when compared to the year in which the register was maintained.

As the 12 week register should be based on a representative period, the taxable value of the food and drink component of tax-exempt body entertainment provided to employees and their associates should be approximately equal to the taxable value that would have been determined based on actual expenditure.

Where the food and drink component of tax-exempt body entertainment is provided primarily to persons other than employees and their associates, the 12 week register method will result in a lower taxable value than using the 50/50 method because the proportion of tax-exempt body food and drink entertainment provided to employees and their associates is less than 50%.

If entities use the 12 week register method to calculate the taxable value of meal entertainment, the entity can claim input tax credits for the GST paid on the proportion of entertainment provided to employees and their associates as evidenced by the 12 week register. That is, entities can claim input tax credits for the GST paid on the proportion of meal entertainment on which FBT is paid.

#### *50/50 method*

Calculating taxable value using the 50/50 method may be most appropriate when:

- a) entities provide a majority of the food and drink component of tax-exempt body entertainment to employees and their associates
- b) there are insufficient records of attendees or it is impractical to keep details of attendees, and
- c) entities regularly provide the food and drink component of tax-exempt body entertainment.

The 50/50 method is generally the easiest method to administer because it only requires entities to record total meal entertainment expenditure rather than keep details of to whom the food and drink component of tax-exempt body entertainment was provided.

For example, entities that host a large number of social functions, attended predominantly by employees and their associates, would generally use the 50/50 method as there would be minimal record-keeping requirements and the FBT liability would be lower as it is calculated based on 50% of total expenditure.

If entities use the 50/50 method to calculate the taxable value of meal entertainment, the entity can claim input tax credits for the GST paid on 50% of total meal entertainment provided. That is, entities can claim input tax credits for the GST paid on the proportion of meal entertainment on which FBT is paid.

#### *Timing of determining approach to calculating taxable value*

At the commencement of the FBT year, entities will generally determine the approach to calculating the taxable value of tax-exempt body food and drink entertainment benefits based on the anticipated nature and value of the benefits to be provided. Up until lodgment of the FBT return, entities may choose to use a different approach if circumstances relating to availability of records, the proportion of entertainment provided to employees and associates and expenditure on tax-exempt body food and drink entertainment differs to what was anticipated.

#### *RFBA implications of providing tax-exempt body food and drink entertainment*

The food and drink component of tax-exempt body entertainment is an excluded benefit, that is, it does not result in a RFBA for employees.

### **Provision of recreation entertainment**

Whilst it is not as common for Australian Government entities to provide recreation entertainment compared to the provision of food and drink entertainment, it is important for any such recreation entertainment to be identified and reported for FBT purposes.

Examples of such expenditure include:

- a) the attendance by employees at golf days
- b) recreation components of seminars such as a winery tour
- c) leasing of a corporate box or other leisure facilities, and
- d) escorting visiting dignitaries to local tourist attractions.

#### *Taxable value of the recreation component of tax-exempt body entertainment*

The taxable value of the recreation component of tax-exempt body entertainment is generally equal to the cost of the activity and any associated travel and accommodation costs. Where the recreation comprises an entertainment facility leasing expense entities can use the 50/50 method for valuing the benefit<sup>19</sup>.

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<sup>19</sup> Refer to section 152B FBTAA. The food and drink component of any such leasing facility is required to be separated out and treated as food and drink entertainment.



### *Minor benefits exemption*

Depending on the cost of the recreation entertainment provided, the benefit may qualify for the minor benefits exemption.

### *RFBA implications of providing tax-exempt body recreation entertainment*

The cost of hiring or leasing entertainment facilities such as a corporate box is also an excluded benefit, that is, it does not result in a RFBA for employees.

The balance of the recreation component of tax-exempt body entertainment, for example, tickets to a golf day, may result in a RFBA for an employee provided the total taxable value of all benefits received by the employee exceeds \$1 000. Better practice entities enter the employee name and employee AGS/ID number in the description field of the expense code so that the amount can be allocated to an employee, rather than attempt to allocate expenses to individual employees at the time of preparing the FBT return.

## **Determining whether expenditure results in the provision of tax-exempt body entertainment**

**The table set out on pages 90 to 93** indicates the FBT and RFBA treatment of a number of scenarios that may result in a tax-exempt body entertainment benefit. It is based on the information contained in Taxation Rulings TR 97/17 and TR 97/17A. Further detail can be found in these rulings. The table outlines:

- a) whether the expenditure should be included in the food and drink component of tax-exempt body entertainment. The table indicates whether it is necessary to include expenditure in the tax-exempt body entertainment calculation, based on the particular valuation method used. It also indicates where the taxable value amount should be recorded in the FBT return as 'meal entertainment' or 'tax-exempt body entertainment'. This approach expands on the tables contained in Taxation Rulings TR 97/17 and TR 97/17A that address whether or not an amount is meal entertainment and whether a FBT liability arises
- b) whether the expenditure constitutes the recreation component of tax-exempt body entertainment, and
- c) whether the expenditure will result in a RFBA for the employees who undertook the recreational activity.

| Activity  | Taxable value of meal entertainment |                 | Food and drink component of TEBE* | Recreation component of TEBE* | RFBA |
|---|-------------------------------------|-----------------|-----------------------------------|-------------------------------|------|
|   | 50/50 (Y/N)                         | 12 week (Y/N)   | Actual (Y/N)                      |                               |      |
| A social function provided on business premises attended by employees. For example, cake for an employee's birthday or a social function to raise staff morale.   | Y                                   | Y               | Y                                 | N                             | N    |
| A social function, such as a Christmas party with a band, provided on business premises that is attended by employees, clients and/or third parties <sup>20</sup> |                                     |                 |                                   |                               |      |
| – the proportion of the food and drink cost that relates to employees or associates of the employee.  | Y                                   | Y               | Y                                 | N                             | N    |
| – the proportion of the recreation cost that relates to employees or associates of the employee.  | N                                   | N               | N                                 | Y                             | Y    |
| – the proportion of the food and drink cost that relates to clients and/or third parties.   | Y                                   | Y <sup>21</sup> | N                                 | N                             | N    |
| – the proportion of the recreation costs that relate to clients and/or third parties.   | N                                   | N               | N                                 | N                             | N    |

<sup>20</sup> The section 41 FBTAA 'property consumed by an employee on a working day on business premises' exemption does not apply to tax-exempt body entertainment benefits. Tax-exempt body entertainment benefits are a specific benefit type and are not taxed under the property fringe benefit provisions.

<sup>21</sup> The value attributable to clients and third parties is included in order to calculate the taxable value of the meal entertainment, but would not be included in the percentage of meal entertainment provided to employees and their associates in the 12 week register.

| Activity   | Taxable value of meal entertainment |                  | Food and drink component of TEBE* | Recreation component of TEBE* | RFBA |
|--|-------------------------------------|------------------|-----------------------------------|-------------------------------|------|
|  | 50/50<br>(Y/N)                      | 12 week<br>(Y/N) |                                   |                               |      |
| A social function provided on business premises to recognise a special achievement of an employee which satisfies the requirements of section 58P FBTA |                                     |                  |                                   |                               |      |
| – food and drink provided to the employee and their associate.   | Y                                   | Y                | N                                 | N                             | N    |
| – food and drink provided to other entity employees and their associates.  | Y                                   | Y                | Y                                 | N                             | N    |
| A celebratory dinner held off business premises that is open to the public   |                                     |                  |                                   |                               |      |
| – the proportion of the cost that relates to employees or associates of employees.   | Y                                   | Y                | Y                                 | N                             | N    |
| – the proportion of the cost that relates to the general public.   | Y                                   | Y <sup>22</sup>  | N                                 | N                             | N    |

<sup>22</sup> The value attributable to the general public is included in order to calculate the taxable value of the meal entertainment, but would not be included in the percentage of meal entertainment provided to employees and their associates in the 12 week register.

| Activity  | Taxable value of meal entertainment |               | Food and drink component of TEBE* | Recreation component of TEBE* | RFBA |
|---|-------------------------------------|---------------|-----------------------------------|-------------------------------|------|
|   | 50/50 (Y/N)                         | 12 week (Y/N) | Actual (Y/N)                      |                               |      |
| A celebratory dinner held off business premises and attended by employees only.   | Y                                   | Y             | Y                                 | N                             | N    |
| Meals provided to an employee who is travelling for at least one night. For example, dinner including alcohol.  | N                                   | N             | N                                 | N                             | N    |
| Meals provided to a local employee who is accompanying a travelling employee. For example, an employee from overseas or interstate is visiting your office and an employee from your office joins the visitor for dinner. | Y                                   | Y             | Y                                 | N                             | N    |
| Meals provided for a travelling employee accompanied by a local employee.   | N                                   | N             | N                                 | N                             | N    |

| Activity  | Taxable value of meal entertainment |                 | Food and drink component of TEBE* | Recreation component of TEBE* | RFBA |
|---|-------------------------------------|-----------------|-----------------------------------|-------------------------------|------|
|   | 50/50 (Y/N)                         | 12 week (Y/N)   | Actual (Y/N)                      |                               |      |
| Hire of an entertainment facility such as a corporate box.  |                                     |                 |                                   |                               |      |
| – the proportion relating to the leasing of the facility.   | N                                   | N               | N                                 | Y                             | N    |
| – the proportion of the food and drink costs that relates to employees or associates of the employee. | Y                                   | Y               | Y                                 | N                             | N    |
| – the proportion of the food and drink cost that relates to clients and/or third parties              | Y                                   | Y <sup>23</sup> | N                                 | N                             | N    |
| A recreational pursuit provided for employees. For example, football tickets or a golf day.           | N                                   | N               | N                                 | Y                             | Y    |

Notes:

\* "TEBE" means tax-exempt body entertainment fringe benefits.

"Provide/provided/held" means that the employer has paid for some or all of the cost of the food and/or drink. This may include events organised by another entity. Where a morning tea or lunch is organised and employees pay for their own food and/or drink, no fringe benefit is provided.

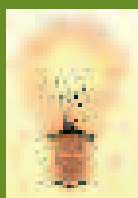
"Seminar" is any training session of a duration of at least 4 hours, excluding breaks, but does not include a "business meeting". A planning day (where employees discuss general policy issues relevant to the internal management of the employer's business) is not considered a business meeting and for FBT purposes is treated in a similar manner to a seminar. (Authority for this can be found in sections 32-35 and 32-65 of the *Income Tax Assessment Act 1997*).

<sup>23</sup> The value attributable to clients and third parties is included in order to calculate the taxable value of the meal entertainment, but would not be included in the percentage of meal entertainment provided to employees and their associates in the 12 week register.

## Collating information

Information relating to tax-exempt body entertainment should be recorded to enable the taxable value to be calculated. The following details should be collected:

- a) date of transaction
- b) total expenditure
- c) GST amount
- d) description of expenditure, for example, cakes, biscuits and soft drink for a staff party
- e) number of employees and employee's associates attending
- f) number of employees of associated entities and associates of such employees attending
- g) name and employee AGS/ID, number of entity employees and employees of associated entities who received recreation entertainment benefits, and
- h) number of other persons attending (other than employees and employee's associates).



For entities that use corporate credit cards, better practice is to require all food, drink and recreation activities to be purchased using a corporate credit card. The cardholder should be requested to provide details of the expenditure to FBT staff, including details of the nature of the function and who attended. This provides FBT staff with the information they require to calculate the tax-exempt body entertainment fringe benefit.

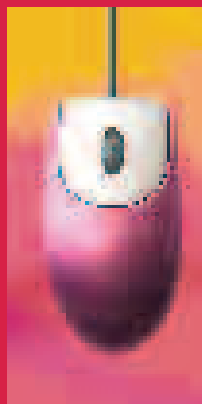
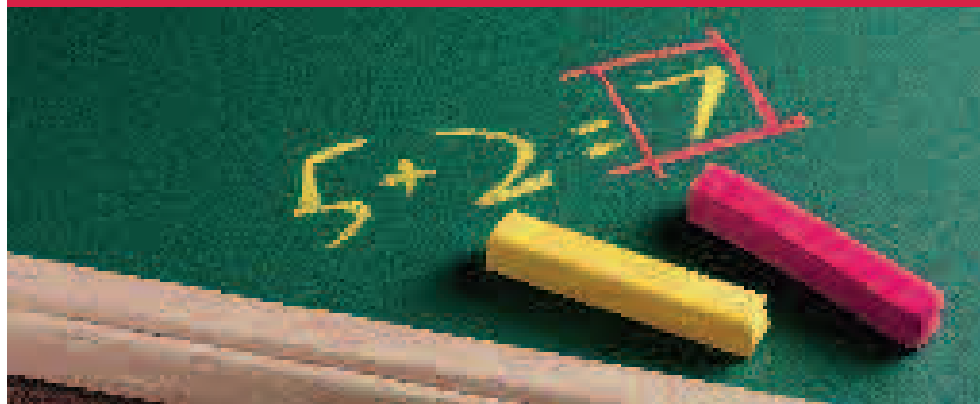
## GST interaction

Entities can only claim input tax credits on deductible entertainment expenditure and entertainment expenditure that is subject to FBT. If, throughout the year, entities expect to use one method of calculating FBT on tax-exempt body entertainment and at year end the entities use another calculation method then they will be required to process an adjustment to the Business Activity Statement (BAS). For example, if an entity expects to use the 50/50 method for valuing tax-exempt body food and drink entertainment fringe benefits, throughout the year it will claim 50% of the input tax credits attributable to tax-exempt body food and drink entertainment expenditure. If at year end it decides to use the actual method because it determines that only 45% of expenditure relates to employees, it will have to process an adjustment to the BAS equal to the input tax credits on 5% of expenditure.

The adjustment should be made in the next BAS following lodgment of the FBT return in accordance Subdivision 69-B of the *A New Tax System (Goods and Services Tax) Act 1999*.

SECTION 3

EXPENSE PAYMENT PROPERTY  
AND RESIDUAL FRINGE BENEFITS







## SECTION 3

# EXPENSE PAYMENT, PROPERTY AND RESIDUAL FRINGE BENEFITS

### Introduction

Expense payment, property and residual fringe benefits are commonly provided by Australian government entities. These benefit types include items such as expense reimbursements, staff awards and the provision of vehicles, other than cars. A number of benefits paid to employees who are required to live away from home or relocate in order to perform employment duties may be treated as either expense payment or residual fringe benefits.

### Expense payment fringe benefits



Tax Office: *Fringe Benefits Tax: A Guide for Employers* - Chapter 9

Legislative reference: FBTAA Part III Division 5

Expense payment fringe benefits arise when an employer reimburses an employee for an expense incurred by the employee, or when the employer pays a third party for expenses incurred by an employee.

Listed below are a number of examples of expense payment fringe benefits provided by Australian Government entities that are **not exempt from FBT**:

- a) HECS-HELP payments
- b) Postgraduate Education Loan Scheme (PELS) loan payments
- c) reimbursement or payment of home telephone expenses used for private purposes
- d) reimbursement or payment of home internet service fees used for private purposes
- e) reimbursement for the purchase of a home-based desk-top computer
- f) payment or reimbursement of child care costs

- g) reimbursement for school holiday care costs or where the employee is required to work on a weekend or over a holiday period
- h) gym membership fees
- i) registration fees for a sporting group
- j) other health and fitness costs
- k) provision of security services, for example, home security services for employees living overseas
- l) spouse travel
- m) car parking expense payment fringe benefits, and
- n) reimbursement of costs of transferring the registration of a motor vehicle when an employee is required to live away from home or relocate in order to perform employment duties.

The following expense payment fringe benefits are commonly provided by Australian Government entities. These benefits may be **exempt** from FBT, have a **reduced taxable value** or be **otherwise deductible**. Further detail on the requirements for exemption or reductions in taxable value can be found in Chapters 19 and 20 of the Tax Office publication, Fringe Benefits Tax: A Guide for Employers (NAT 1054) or in the FBTA.

The benefits that may be **exempt** from FBT include:

- a) payment or reimbursement for newspapers and periodicals used for business purposes
- b) eligible work related items<sup>24</sup>
- c) taxi travel to or from work or in the event of illness or injury
- d) travel from a workplace located in a foreign country in order to obtain medical treatment
- e) expense payment benefits valued at under \$100 where the provision of similar benefits is infrequent and irregular
- f) certain expenditure relating to an employee who is living away from home or has relocated, including:
  - accommodation while an employee is living away from home to perform employment duties
  - certain costs in relation to the sale or acquisition of a dwelling as a result of relocation
  - connection or re-connection of certain utilities when an employee is living away from home or has relocated

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<sup>24</sup> Eligible work related items are defined in section 58X of the FBTA to include a mobile phone or car phone, protective clothing, a briefcase, a calculator, a tool of trade, computer software for use in the employee's employment, an electronic diary, PDA or similar item, a notebook computer, a laptop or similar portable computer. Peripheral items such as portable printers will also be exempt from 1 April 2006.

- relocation transport
  - provision of a relocation consultant to assist the employee in settling in to a new location<sup>25</sup>
  - reimbursement for costs of travelling to an alternate locality to research houses and schools, prior to the employee living away from home or relocating in order to perform employment duties
  - reimbursement for customs duty incurred to move a car due to an employee having to relocate in order to perform employment duties<sup>26</sup>
- g) airport lounge membership fees
- h) expense payment or reimbursement for long service awards which do not exceed the prescribed amounts, and
- i) awards to recognise occupational health and safety achievements where such awards do not exceed a value of \$200.

The benefits that may qualify for a **reduced taxable value** include:

- a) overseas employment holiday transport
- b) remote area entitlements including reimbursement for car expenses on a cents per kilometre basis in relation to remote area holiday transport
- c) full-time education of children of employees working overseas, and
- d) re-union flights to re-unite families of employees living overseas or in a remote area.

Set out below is further detail in relation to the treatment of those expense payment fringe benefit items the Tax Office has identified as being frequently reported incorrectly.

### ***HECS-HELP, PELS and study expenses***

HECS-HELP and PELS reimbursements are not otherwise deductible and so the whole reimbursement or payment is subject to FBT.

The reimbursement or payment of other study expenses, including course fees and FEE-HELP may be otherwise deductible if they meet the requirements of self-education expenses. (Refer to Tax Office guidance at [www.ato.gov.au](http://www.ato.gov.au) on the deductibility of study expenses and FEE-HELP repayments).

Given the possible difference in FBT treatment of PELS and course fees, entities should consider reimbursing employees for course fees rather than PELS payments.

Due to differing FBT treatments, it is important that HECS-HELP, FEE-HELP and PELS reimbursements or payments are recorded separately.

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<sup>25</sup> Refer section 58AA FBTAA.

<sup>26</sup> Customs duty reimbursements are covered by the section 58B(2) exemption provided the car is kept primarily for the personal use of family members.

### ***Payment of home telephone and home internet services***

If entities do not hold otherwise deductible declarations signed by employees, the total payment for home telephone and home internet services becomes a fringe benefit, even if part of the use was for work related purposes. The only exception is where the entity reimburses specific work related calls and, therefore, there is no requirement for a declaration as the benefit is an exclusive employee expense payment benefit.

### ***Payment for child care when an employee is required to work over a weekend or holiday period***

Some entities may require staff to work during a period when the employee would not normally work, for example, on weekends or between Christmas and New Year. If the employer agrees to pay for child care for employees' children during such period, the payment constitutes an expense payment fringe benefit. The benefit is not otherwise deductible because it is private in nature. If it is paid as an allowance rather than a reimbursement, it will be subject to income tax in the hands of the employee under the PAYG provisions.

### ***Travel by an employee before relocating and fees for change of vehicle registration***

Some reimbursements associated with an employee living away from home or relocating are exempt. This exemption may apply to the costs of a journey undertaken in order to find suitable accommodation prior to the actual employment relocation if the employee has already accepted an offer to transfer. However, the cost to change motor vehicle registration when living away from home or relocating is not exempt and reimbursement constitutes an expense payment fringe benefit.

### ***Overseas travel***

Where an employee postpones the return date of business travel to undertake private travel, the employee has received a benefit. It may be necessary to apportion the airfare between the business and private components. While there can be no precise arithmetical division in such cases, there must be a fair and reasonable division based on the facts of the case. For example, if a work-related conference or seminar is undertaken equally for income-earning purposes and private purposes, it would be appropriate to apportion the expenses equally between the purposes. The work area that is responsible for booking travel will generally have details of the travel dates and be able to provide this detail to the FBT work area to be considered in conjunction with any documentation such as a travel diary provided by the employee.

### ***Lap-top computers***

The provision of a laptop computer to an employee, either as part of a salary packaging arrangement, or as part of business operations is generally considered exempt. However, the payment or reimbursement of the cost of a laptop computer is only exempt if the employee did not receive a previous expense payment or property benefit related to a laptop earlier in the same FBT year. If an Australian Government entity, which is reimbursing an employee for the cost of a laptop computer over a two year period, provides another laptop computer to the employee during the second year the provision of the second laptop will not be an exempt benefit.

Better practice entities will request employees to certify that they have not already received an exempt expense payment or property benefit in respect of laptop computer from the entity during that FBT year.

### *Calculating the Australian dollar equivalent of an expense incurred in a foreign currency*

The foreign exchange rate may impact on the amount of the expense payment fringe benefit. When reimbursing a payment made by an employee, entities should reimburse the amount actually paid by the employee. For example, an employee incurs expenditure of US\$10 paid on an Australian credit card. The charge shown on the credit card statement is AU\$15. The employer should reimburse the employee AU\$15, being the amount incurred by the employee.

Where an employee has a foreign currency bank account, entities may choose to make payments into this bank account. In this situation, the exchange rate will be determined at the time of the payment. The amount of the expense payment fringe benefit will be the Australian dollar amount paid to reimburse the employee for the foreign currency amount paid.

### **Calculating taxable value of expense payment fringe benefits**

The taxable value of expense payment fringe benefits is the amount of the reimbursement or payment reduced by the component that the employee could claim as a once-only income tax deduction (the otherwise deductible component) and reduced by any contribution made by the employee. The otherwise deductible component does not relate to deductions that span several income years, such as depreciation.

When calculating the taxable value of an expense payment fringe benefit, employees can assist by completing an otherwise deductible declaration prior to an expense being reimbursed or paid. This enables the taxable value of the benefit to be calculated, and the RFBA to be recorded, at the time of reimbursement rather than requiring otherwise deductible declarations to be collected at year end.

To further streamline the process, the FMIS and the payroll system can be used to capture FBT data. An otherwise deductible declaration can be incorporated into an expense claim form, **refer to Figure 13 on page 100**. The reimbursement can then be processed through the payroll system and coded to specifically created payroll codes that link to the FMIS, such as “telephone expense – private use” and “ telephone expense – business use”. This means that for FBT return reporting purposes, the total expense payment amount, the otherwise deductible amount and the taxable value amount can be extracted from the FMIS and the RFBA data (linked to the employee’s name and employee AGS/ID number) can be extracted from the payroll system. For this option to be effective it requires all expenditure to be reimbursed through the payroll system, rather than be paid through the accounts payable system.

To increase the efficiency of the process, whether through the payroll system or the accounts payable system, the area processing the claim should be requested to provide a copy of the expense claim reimbursement form to the work area that is responsible for collating FBT data. The FBT staff can then periodically reconcile the expense claim forms to the information contained in the FMIS.

**Figure 13 - Expense reimbursement claim form**

**Expense reimbursement claim form**

Name: \_\_\_\_\_

Employee AGS/ID number: \_\_\_\_\_

Cost centre/Project code: \_\_\_\_\_

*Reimbursement details:*

| Details of expense | Amount of reimbursement | Was the expense subject to GST (Yes/No)? |
|--------------------|-------------------------|--|
|                    |                         |  |

Please provide an original tax invoice (for expenses subject to GST) or a receipt.

*Otherwise deductible declaration:*

I incurred the expenses for the following purpose(s)

\_\_\_\_\_

(Please give sufficient information to demonstrate the extent to which you used the item for the purpose of earning your assessable income.)

I also declare that, had the expense not been reimbursed, I would have been entitled to an income tax deduction for \_\_\_\_\_% of the expense.

Please note: Expense reimbursements may result in a reportable fringe benefit amount being reported on your payment summary. For details on reportable fringe benefit amounts refer to {*FBT Manual/Reportable fringe benefit amount notification*}

Signature: \_\_\_\_\_ Date: \_\_\_\_\_

I approve the spending of money in accordance with \_\_\_\_\_ {*eg FMA Regulation 9*}

Name & Position number: \_\_\_\_\_

Signature: \_\_\_\_\_ Date: \_\_\_\_\_

## Property fringe benefits



Tax Office: *Fringe Benefits Tax: A Guide for Employers* - Chapter 17

Legislative reference: FBTAA Part III Division 11

### Identifying property fringe benefits

Property fringe benefits arise when entities provide employees with free or discounted property.

For FBT purposes, property means tangible property and intangible property. It includes:

- a) goods such as a computer, furniture or a gift voucher
- b) real property, such as land and buildings, and
- c) choses in action such as shares or bonds.

At times, Australian government entities provide the following property fringe benefits:

- a) staff awards such as a gift voucher or a box of chocolates, and
- b) laptops and/or used furniture sold to employees at a discounted price.

### Allocating property benefits to employees for RFBA purposes

Property fringe benefits are generally not 'excluded benefits', so they may form part of a RFBA (where the total taxable value of all benefits received by the employee in that FBT year exceeds \$1 000).

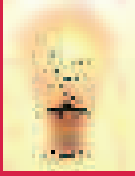
To allocate property fringe benefits to employees for RFBA purposes requires entities to know which employee received the property in question. Property purchases are often coded to the general ledger at the time of purchase and the property may be allocated to an employee at a later date.

Better practice entities will have a process to record the details of property fringe benefits including details of the employee who received the benefit. This can be done by the use of a database that details the purchase and movement of the property.

### Calculating taxable value of property fringe benefits

The taxable value of property fringe benefits provided to an employee of an Australian Government entity will generally be equal to the market value of the property reduced by any contribution made by the employee.

Details of the alternative valuation rules are in Chapter 17 of the Tax Office publication, *Fringe Benefits Tax: A Guide for Employers* (NAT 1054).



Property fringe benefits may include gifts provided to employees by a third party under an arrangement with the Australian Government employer. Gifts provided by another Australian Government entity will generally be considered to have been provided by an associate and will be required to be included in the employer's FBT return.

Valuing such benefits may require the third party to provide details of the value of the gift, or the retail price of a comparable item to be sourced.

One practice adopted by entities whose employees often receive gifts is to maintain a 'gift register'. A gift register could take the form of an entity-wide database that records the details of all gifts received, along with an estimated value (obtained from the entity that gave the item or from another source).

A review of gift register entries should be performed each year, focussing particularly on the value assigned to the gifts. Employees should be advised that the register will be reviewed to determine whether gifts are being properly disclosed and valued.



## Residual fringe benefits



Tax Office: *Fringe Benefits Tax: A Guide for Employers* - Chapter 18

Legislative reference: FBTAA Part III Division 12

### Identifying residual fringe benefits

Fringe benefits include any right, privilege, service or facility provided in respect of employment. Any fringe benefit that is not covered by a specific fringe benefit provision will be taxed as a residual fringe benefit.

There are a number of residual fringe benefits that are commonly provided by Australian Government entities, including:

- a) the use of a home-based desk-top computer
- b) motor vehicles that are not defined as cars. For example, motor cycles and utilities designed to carry one tonne or more
- c) interim and hire cars held for less than 3 months, and
- d) recreational or child care facilities.

Details of the technical aspects of providing these benefits can be found in the Chapter 18 of the Tax Office publication, *Fringe Benefits Tax: A Guide for Employers* (NAT 1054).

#### ***The use of a home-based desktop computer***

The taxable value of the use of a desktop computer is equal to the hiring cost for a similar computer reduced by the otherwise deductible component. Where the equipment is leased by an entity under arm's length arrangements, the actual rate paid should be used. Where the equipment is owned by an entity or leased under a non-arm's length arrangement, rental rates can be obtained from a company that is in the business of leasing computer equipment. The lowest rate obtained from such a company, for a similar computer over a similar hire period could be used.

#### ***Motor vehicles other than cars and cars hired for less than 3 months***

Details of the FBT treatment of cars and other vehicles are contained in Section 1 Car fringe benefits.

The taxable value of a residual fringe benefit comprising motor vehicles other than cars can be calculated by one of two methods:

- a) using the operating cost method as applies to car fringe benefits, or
- b) using a cents per kilometre basis.<sup>27</sup>

Further details in relation to these calculation methods can be found in Chapter 18 of the Tax Office publication, *Fringe Benefits Tax: A Guide for Employers* (NAT 1054).

#### ***Recreational or child care facilities***

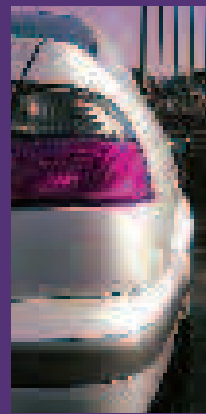
Residual fringe benefits consisting of recreational or childcare facilities are exempt benefits if the facilities are provided on the business premises of the employer, or an associate of the employer, and are provided for the benefit of employees.

<sup>27</sup> The Tax Office issues an annual tax determination that specifies the rates to be applied on a cents per kilometre basis for calculating the taxable value of a fringe benefit arising from the private use of a motor vehicle other than a car for that FBT year. For the FBT year commencing 1 April 2005 it is TD 2005/9.



SECTION 4

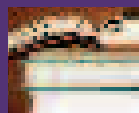
CAR PARKING FRINGE BENEFITS





## SECTION 4

# CAR PARKING FRINGE BENEFITS



Tax Office: *Fringe Benefits Tax: A Guide for Employers* - Chapter 16

Legislative reference: FBTA Part III Division 10A

### Introduction

Australian Government entities will often provide the following types of car parking:

- a) car parking on business premises
- b) car parking at airports (where the employment premises are at or near an airport)
- c) reimbursement or payment of car parking costs incurred by the employee (car parking expense payment fringe benefits), and
- d) car parking for staff holding a valid disabled permit (exempt benefits).

A car parking fringe benefit will arise from the provision of a car parking space to an employee when the conditions set out in section 39A FBTA are satisfied.

In order to value car parking benefits, it is necessary to ascertain the number of benefits provided and the value of the benefits provided.

### **Number of Benefits**

To ascertain the number of benefits, the employer is able to use any of the following 3 methods:

- a) the actual method
- b) the 12 week register method, or
- c) the statutory formula method.

The statutory formula method is often used by Australian Government entities to ascertain the number of benefits and the average cost method to value car parking fringe benefits because they are easier to administer than the other methods.

Under the statutory formula method, 228 car parking fringe benefits are deemed to arise for each car

parking space that is available to be used by an employee during a FBT year. This result is reduced if the number of employees is less than the number of car parking spaces available or if the car park was only available for part of the FBT year.

To determine the number of car parking fringe benefits provided under the other valuation methods, entities are required to keep records of actual use of car parking spaces or maintain a 12 week register of the use of car parking spaces.

### ***Value of benefits***

To ascertain the value of the benefit, the employer is able to use any of the following 3 methods:

- a) the actual (commercial parking station) method
- b) the market value method, and
- c) the average cost method.

When using the actual (commercial parking station) method, the value of the benefit is determined by the lowest all day fee charged by any commercial car park operator located within a one kilometre radius of the employer provided parking.

The market value method requires the employer to obtain a valuation report from a suitably qualified valuer regarding the market value of the car parking.

The average cost method requires the value of the car parking benefits to be ascertained at the beginning and end of the period during the FBT year when car parking benefits were provided (1 April to 31 March for car parking benefits provided for the whole FBT year).

Further details on the valuation methods can be found in Chapter 16 of the Tax Office publication, *Fringe Benefits Tax: A Guide for Employers* (NAT 1054) and in Taxation Ruling TR 96/26.

### ***Parking at airports***

Commercial car park operators situated at airports often charge higher rates than apply in other car parks within the same city. Entities that have car parks located near an airport should consider using the market value basis for valuing such car parking fringe benefits. This requires that the value of the car parking fringe benefits be specified by a qualified valuer. The cost of an independent valuation may be less than the difference in FBT that results from using the market valuation method rather than one of the other valuation methods that can be used for valuing the car parking fringe benefits.

## Identifying car parking fringe benefits

### *Is there a commercial car parking station within one kilometre of where an entity provides parking?*

One of the requirements for reporting car parking fringe benefits is to determine whether there is a commercial car parking station that charges more than the threshold amount<sup>28</sup> (at 1 April) within a one kilometre radius of where the entity provides parking. This may be difficult when the entity has many offices around Australia and the staff preparing the FBT return are not familiar with local arrangements.



There are commercial websites that contain details of car parks around Australia. Entities may be able to use such sites to identify the location of commercial car parks. Such websites should be used with caution, as they may contain information that is out of date. All details should be confirmed by contacting the car park operator direct.

Once the locations of car parks have been identified, the entity needs to determine whether the lowest fee charged by any of those car parks is higher than the threshold amount. In doing this, monthly and annual rates can be used as a starting point and divided by the number of business days in the relevant period.

## Exemptions

The following items are not car parking fringe benefits:

- a) car parking which does not satisfy the conditions set out in section 39A of the FBTAA
- b) certain expense payment benefits which relate to the provision of car parking<sup>29</sup>
- c) parking for staff holding valid disabled parking permits (exempt), and
- d) car parking benefits that are deemed to be exempt because they are provided by certain entities including:
  - scientific institutions, and
  - government bodies, in relation to an employee who is employed exclusively in, or in connection with, a public educational institution.

<sup>28</sup> The car parking threshold amount is set out in an annual Taxation Determination issued by the Tax Office. The threshold for the FBT year commencing 1 April 2005 as set out in TD 2005/18 is \$6.43.

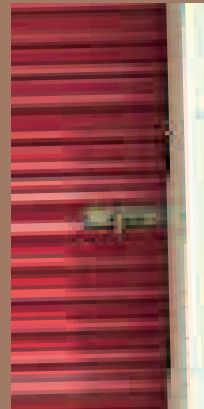
<sup>29</sup> Refer section 58G(1) FBTAA.





SECTION 5

LAFHA AND FRINGE BENEFITS  
PROVIDED AS A RESULT  
OF LIVING AWAY FROM  
HOME OR RELOCATION





## SECTION 5

# LAFHA AND FRINGE BENEFITS PROVIDED AS A RESULT OF LIVING AWAY FROM HOME OR RELOCATION

### Introduction

Australian Government entities generally pay allowances and/or reimburse expenses for employees who are required to live away from home or relocate in order to perform employment duties. **The table on pages 110 to 113 shows the usual taxation treatment of such payments.** The column headed 'LAFH' relates to employees who are living away from home in order to perform employment duties and the column headed 'Relocated' relates to employees who have changed their usual place of residence in order to perform employment duties.

The table has been prepared on the basis that the payments are not exempt under section 23AG or section 23AF of the *Income Tax Assessment Act 1936*.<sup>30</sup>

The taxation of allowances will depend on their nature. Allowances paid to compensate an employee who is living away from home for the additional costs of living away from home are generally taxed as living away from home allowance (LAFHA) fringe benefits. All other allowances, including allowances paid to employees who have relocated, are generally taxed under the PAYG regime.

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<sup>30</sup> There are some specific exemptions for certain people on overseas deployments. Class rulings CR 2004/73, CR 2005/53 and CR 2005/62 provide some examples of when such payments are exempt.

| Payment type  | Income tax or FBT treatment - PAYG/ LAFHA/<br>expense payment fringe benefit/loan fringe benefit          |                  |
|---|---|------------------|
|   | LAFH  | Relocated        |
| Living away from home allowance (or an allowance paid to an employee who has relocated)                                       | LAFHA   | PAYG             |
| Cost of living allowance (COLA) <sup>31</sup>   | LAFHA   | PAYG             |
| Cost of posting allowance (COPA)  | LAFHA if cost related; PAYG if it is an incentive to live away from home or only related to disadvantages | PAYG             |
| Allowances <sup>32</sup> paid to employees to compensate them for the additional costs of living away from home or relocating | LAFHA   | PAYG             |
| Additional food allowance   | LAFHA   | PAYG             |
| Accommodation allowance   | LAFHA   | PAYG             |
| Incidentals allowance   | LAFHA   | PAYG             |
| Child allowance <sup>33</sup>   | LAFHA   | PAYG             |
| Disturbance allowance <sup>34</sup>   | PAYG  | PAYG             |
| Payment/reimbursement of rental costs   | Expense payment*  | Expense payment* |
| Provision of housing (owned or leased by the employer)  | Residual*   | Housing*         |

<sup>31</sup> Regulation 3B(4) of the *Fringe Benefits Tax Regulations 1992* provide that certain overseas living allowances are excluded fringe benefits and therefore do not need to be reported.

<sup>32</sup> Including review travel allowances. A review travel allowance is an allowance paid to an employee once they have been travelling for more than 21 days.

<sup>33</sup> For the purposes of this Guide, a child allowance means an allowance paid to employees who are required to live away from home in order to perform employment duties. The allowance covers the additional costs of changing the location of a child, for example, purchasing additional school uniforms and other school needs and may include an element to cover the additional food costs for the child.

<sup>34</sup> For the purposes of this Guide a disturbance allowance is an allowance paid to cover additional unquantifiable costs because an employee is required to live away from home in order to perform employment duties. Disturbance allowances are generally subject to PAYG. Taxation Ruling TR 95/17 exempts disturbance allowances in the hands of ADF members in accordance with section 23(t)(ii) *Income Tax Assessment Act 1936*. Taxation Ruling IT 2614 provides guidance for other taxpayers.

| Payment type  | Income tax or FBT treatment - PAYG/ LAFHA/<br>expense payment fringe benefit/loan fringe benefit   |                         |
|---|--|-------------------------|
|   | LAFH   | Relocated               |
| Utilities allowance <sup>35</sup>   | PAYG unless it forms a part of a rent payment (not separately identified) and then it may be included as part of the exempt accommodation component of the LAFHA | PAYG                    |
| Payment/reimbursement of utility costs  | Expense payment*   | Expense payment*        |
| Allowance to cover excess commuting costs   | PAYG   | PAYG                    |
| Outlay allowance <sup>36</sup> – unvouched (and not required to be repaid)  | PAYG   | PAYG                    |
| Outlay allowance – vouched (and not required to be repaid)  | Expense payment  | Expense payment         |
| Repayable outlay allowance/ advance   | Loan   | Loan                    |
| Cents per kilometre allowance for travel in an employee's car including motor vehicle allowance that forms part of a remote localities assistance | PAYG or expense payment <sup>37</sup>  | PAYG or expense payment |
| Payment/reimbursement for clothing for a change in climate at a new location  | Expense payment  | Expense payment         |

<sup>35</sup> For the purposes of this Guide, a utilities allowance is an allowance paid to cover utilities payments such as electricity, gas and water.

<sup>36</sup> For the purposes of this Guide, an outlay allowance is an allowance designed to cover unspecified additional expenses such as cleaning products, incurred when an employee is living away from home or has relocated in order to perform employment duties.

<sup>37</sup> Some specific cents per kilometre allowances are taxed under the FBT provisions, such as relocation transport, remote areas holiday transport, overseas employment holiday transport, work-related medical examinations, medical screening, preventative health care, counselling, migrant language training, and employment interview or selection tests. Those cents per kilometre allowances that are not taxed under the FBT provisions will be taxed under the PAYG provisions.

| Payment type  | Income tax or FBT treatment - PAYG/ LAFHA/<br>expense payment fringe benefit/loan fringe benefit |   |
|---|--|---|
|   | LAFH   | Relocated   |
| Payment/reimbursement for clothing required as part of changed employment duties while living away from home or as a result of relocation. For example, uniforms or formal clothing required for entertaining staff in a foreign location | Expense payment (may be otherwise deductible in very limited circumstances)                      | Expense payment (may be otherwise deductible in very limited circumstances)           |
| Payment/reimbursement of the costs of removal and storage of household goods  | Expense payment*   | Expense payment*  |
| Payment/reimbursement for cost of leasing household goods   | Expense payment*   | Expense payment*  |
| Payment/reimbursement of the cost of connection or re-connection of certain utilities   | Expense payment*   | Expense payment*  |
| Payment/reimbursement of security deposits and bonds (not repayable)  | Expense payment*   | Expense payment*  |
| Payment/reimbursement of security deposits and bonds (repayable)  | Loan   | Loan  |
| Payment/reimbursement of temporary accommodation in a new location  | Expense payment*   | Expense payment*  |
| Payment/reimbursement of costs in relation to the sale or acquisition of a dwelling as a result of an employee having to relocate   | Expense payment  | Expense payment*  |
| Compensation payments. For example, compensation for damage to furniture in storage   | PAYG if an allowance or expense payment* if it is a reimbursement of vouched expenses            | PAYG if an allowance or expense payment* if it is a reimbursement of vouched expenses |

| Payment type   | Income tax or FBT treatment - PAYG/ LAFHA/<br>expense payment fringe benefit/loan fringe benefit |                  |
|--|--|------------------|
|  | LAFH   | Relocated        |
| Payment/reimbursement of costs for relocation transport                                | Expense payment*   | Expense payment* |
| Payment/reimbursement of costs to visit a new location prior to relocation             | Expense payment*   | Expense payment* |
| Provision of a relocation consultant   | Expense payment*   | Expense payment* |
| Provision of remote area holiday transport and overseas employment holiday transport   | Expense payment*   | Expense payment* |
| Payment/reimbursement of cost of full-time education of children of overseas employees | Expense payment*   | Expense payment* |

\* These benefit types may be exempt benefits or taxed concessionally, particularly if the employee is living in a remote area. Further detail in relation to exemptions and concessions can be found in Chapter 20 of the Tax Office publication, *Fringe Benefits Tax: A Guide for Employers* (NAT 1054).

PAYG – assessable income of the employee and Pay As You Go withholding required.

LAFHA – these allowances form part of a living away from home allowance and are taxed under the LAFHA fringe benefit provisions. Some of these allowances will be exempt from FBT provided certain conditions are met.

Expense payment – these payments will generally be taxed as an expense payment fringe benefit.

Loan – these payments will be taxed as a loan fringe benefit. A loan includes any advance of money, the provision of credit or the payment of an amount where there is an obligation to repay. An exemption can apply in limited circumstances. Further detail on exemptions relating to loan fringe benefits can be found in Chapter 8 of the Tax Office publication, *Fringe Benefits Tax: A Guide for Employers* (NAT 1054).

## Living away from home allowances



Tax Office: *Fringe Benefits Tax: A Guide for Employers* - Chapter 11

Legislative reference: FBTAA Part III Division 7

### Identifying LAFHA fringe benefits

LAFHA fringe benefits are allowances paid to employees to compensate them for the additional expenses and any disadvantage suffered because they are required to live away from home in order to perform employment duties.

LAFHAs and travel allowances are generally recorded in the payroll system because they are allowances rather than expense reimbursements.

### The taxable value of a LAFHA

The taxable value of a LAFHA is the total allowance paid less the exempt food component and the exempt accommodation component.

#### *Exempt food component*

The exempt food component of a LAFHA is the amount of the allowance paid to compensate the employee for additional food costs in the alternate location. The exempt food component may be paid as part of a number of allowances. For example, COLA would include an exempt food component and a child allowance may include an exempt food component.

There are no strict guidelines on how the exempt food component is to be calculated, provided the amount is reasonable and defensible. It should reflect the additional food expenses in the alternate location.

The Australian Bureau of Statistics and a number of commercial organisations provide indexes and guidelines that can be used to estimate the additional food costs in a particular location.

Alternatively, the food component may be based on records kept in the alternate location over a representative period (for example, 12 weeks) and deduct average food expenditure in the home location. This amount would be a reasonable and defensible amount to use in calculating the exempt food component of the LAFHA.

The exempt food component should take into account a number of factors, including:

- a) the composition of the employee's family<sup>38</sup>
- b) the costs of food in the alternate location, and
- c) the usual food expenditure in the home location.<sup>39</sup>

<sup>38</sup> The number of adults (12 years or more) and the number of children (under 12 years of age at the start of the FBT year).

<sup>39</sup> The FBTAA specifies 'statutory food amounts', being the assumed expenditure on food at the employee's home location. The statutory food amounts are \$42 per week for each adult and \$21 per week for each child. (For this purpose, an adult is a person who had attained the age of 12 years before the beginning of the FBT year).



The exempt food component calculation should be reviewed by someone with sufficient experience and understanding of the operation of the LAFHA provisions to determine whether the exempt food component is reasonable and defensible.

### ***Exempt accommodation component***

The exempt accommodation component of a LAFHA is the amount of the allowance that represents the reasonable accommodation costs in the alternate location.

There is no definition of 'reasonable', but the costs should take into account the position of the employee in the entity and whether the employee's family is accompanying the employee. For example, an employee with seven children could be expected to spend more on accommodation than a single person. Similarly, an employee who has responsibility for entertaining at home as part of his or her employment could be expected to have higher accommodation costs than an employee without such responsibilities.

## **Declarations and other documentation**

For LAFHA concessions to apply, employees who are living away from home must provide a LAFHA declaration each FBT year.

If a declaration is not provided the entity will be subject to FBT on the whole of the LAFHA payment and will not be able to reduce the amount by the exempt food and exempt accommodation components.<sup>40</sup>

An example LAFHA declaration is included in Chapter 11 of the Tax Office publication, *Fringe Benefits Tax: A Guide for Employers* (NAT 1054).

## **Other living away from home benefits**

Other accommodation related living away from home benefits often provided are:

- a) payment or reimbursement of rental costs on accommodation leased by the employee, and
- b) provision of the use of accommodation that is owned or leased by the employer.

Both of the above benefits are exempt benefits where the employee is living away from home and has provided a living away from home declaration to the employer. Where a declaration is not provided, the benefit will be fully subject to FBT.

Neither of these exempt benefits requires a 'reasonableness' test as is required under the LAFHA benefit provisions.

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<sup>40</sup> Refer section 136(1) FBTAA definition of exempt accommodation component and exempt food component and paragraph 9 of Taxation Ruling MT 2030.

## Benefits provided as a result of relocation



Tax Office: *Fringe Benefits Tax: A Guide for Employers* - Ch 19.4 & 20.4

Legislative reference: FBTAA Part III Division 13

### Identifying fringe benefits provided as a result of relocation

Fringe benefits provided as a result of relocation are not a separate fringe benefit type. For FBT purposes, these benefits may be taxed as expense payment fringe benefits or as residual fringe benefits.

Payments or reimbursements made to an employee in respect of relocation may be coded against several expense codes in the general ledger. The expense descriptions may not provide sufficient detail to identify the amounts as benefits provided as a result of relocation. Therefore FBT staff may need to perform a detailed analysis of the expense descriptions to identify the amounts as being fringe benefits.

If an entity has a relocation work area or a travel work area that manages relocations, then that work area could be responsible for collating data in relation to benefits resulting from relocation and providing it to FBT staff. For entities that do not have a designated work area to deal with relocations, managers of all work areas should be asked whether any relocation expenditure has been approved in respect of employees engaged by that work area. This assists in identifying benefits that have been paid and then further work can be undertaken to identify the types and amounts of benefits paid.

### Comparison between paying an allowance as result of relocation and providing an expense payment fringe benefit

Payments to cover relocation expenses may take the form of:

- a) an allowance paid to an employee
- b) reimbursements of expenses incurred by an employee, or
- c) payment of the expense directly to a third party who provided the goods or services.

Allowances are taxed under the PAYG provisions. The allowance amount will be subject to income tax at marginal rates in the hands of the employee.

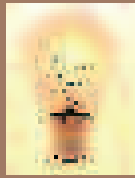
Reimbursements or expense payments are taxed in accordance with the provisions of the *FBTAA*. Certain benefits relating to the relocation of an employee are either exempt benefits, or have a reduced taxable value. If an item of expenditure constitutes an exempt benefit, then there will not be any FBT payable in respect of the item. If an item of expenditure is not covered by an exemption then FBT of 48.5% will be payable on the grossed-up taxable value of the expenditure.

Details of the reductions and exemptions that apply to relocation expenditure are discussed in Chapter 19.4 and 20.4 of the Tax Office publication, *Fringe Benefits Tax: A Guide for Employers* (NAT 1054).

Better practice entities will consider whether an item of relocation expenditure is an exempt benefit, or will have a reduced taxable value. If so, such entities will reimburse the employee for the expenditure or pay the third party who provided the goods or services. If the item is not exempt, or the taxable value is not able to be reduced, entities should consider paying the amount as an allowance because the employee may pay a lower marginal rate of tax on the allowance than the 48.5% FBT rate.

In summary, the payment of relocation expenditure should be made as follows:

| Relocation item's FBT treatment  | Better Practice form of payment          |
|----------------------------------|--|
| Exempt/reduced taxable value     | Reimburse employee or pay expense amount |
| Not exempt/reduced taxable value | Pay as an allowance                      |



For example, an employee incurs \$5,500 of expenses relating to the sale of a dwelling, such as real estate agent fees. If the entity reimburses the employee for the expenses, the entity could claim an input tax credit of \$500, resulting in a net cost of \$5,000. If these expenses meet the requirements to be treated as an exempt benefit, such as meeting required time limits, no FBT is payable by the entity. The total cost to the entity of the expense reimbursement would therefore be \$5,000.

If the entity paid the employee an allowance to cover the costs, the employee would pay income tax on the allowance. Depending on the total taxable income of the employee, the income tax rate paid on the allowance may be up to 48.5%. To enable the employee to pay the real estate agent \$5,500, at no cost to the employee, the entity would be required to pay the employee an allowance of up to \$10,679, resulting in an additional cost to the entity of \$5,679 as compared to reimbursing the employee for the real estate agent fees.

In this situation, the entity should consider reimbursing the employee for the expenses incurred.



SECTION 6

HOUSING AND BOARD  
FRINGE BENEFITS





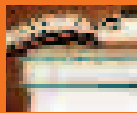
## SECTION 6

# HOUSING AND BOARD FRINGE BENEFITS

### Introduction

Housing and board fringe benefits are only provided by a small number of Australian government entities. They are commonly provided where employees are required to live in remote localities in order to perform employment duties.

### Housing fringe benefits



Tax Office: *Fringe Benefits Tax: A Guide for Employers* - Chapter 10

Legislative reference: FBTAA Part III Division 6 FBTAA

A housing fringe benefit arises where an employee is provided with the right to use a unit of accommodation and it is the usual place of residence of the employee.

### Identifying housing fringe benefits

Where a house that is provided as a housing fringe benefit is owned by the entity, it will generally be recorded in the entity's fixed asset register. If the house is leased by the entity then it may be identified through a rental expense code in the general ledger.

Entities should review prior year's FBT returns and determine whether housing fringe benefits that were provided in prior FBT years continue to be provided in the current FBT year.

### Calculating taxable value of housing fringe benefits

The taxable value of a housing fringe benefit is measured by reference to the market value of the right to occupy the unit of accommodation. This is generally equal to the market value rent for a similar property.

The market value rent for houses that are owned by an entity can be obtained from a local real estate agent. Real estate agents can generally provide rental rates for a property of a similar size in a comparable location. This value can be used as the base value and indexed each year in accordance with the rent sub-group of the national consumer price index published by the Tax Office. The indexation method can be used for the valuation year and a further nine consecutive FBT years.

In the event of a down turn in market rental values, better practice entities will seek an updated market rental valuation. This will minimise FBT payable on the provision of housing fringe benefits. The updated valuation can then be used for that FBT year and a further nine consecutive FBT years.

The market value rent for a leased property will generally be the amount of rent paid for the property, provided the leasing arrangement is at arm's length. In the event that the leasing arrangement is not at arm's length, entities can request a market value rent from a real estate agent.

## Exemptions

Most housing benefits provided in remote areas are exempt from FBT.

A housing benefit qualifies as a remote area housing benefit if each of the following conditions is satisfied:

- a) for the whole of the tenancy period, the unit of accommodation is in a remote area
- b) for the whole of the tenancy period, the accommodation is occupied by a person who is a current employee of the entity, and the usual place of employment of the employee is in the remote area
- c) it is customary in that industry for employers to provide free or subsidised residential accommodation to employees (from 1 April 2006, this condition no longer applies), and
- d) it was necessary for the employer to provide or arrange for the provision of residential accommodation for employees because:
  - the nature of the entity's business is such that employees are liable to move frequently from one residential location to another
  - there is insufficient suitable residential accommodation otherwise available at or near the place or places where the employees are employed, or
  - it is customary in that industry for employers to provide free or subsidised residential accommodation to employees.

Where circumstances warrant, the Commissioner of Taxation has a discretion to treat an employee who resides or works just outside a remote area as residing or working in a remote area if the person lives near the boundary.

For most employers, accommodation is in a remote area if it is **not**:

- a) less than 40 kilometres from an eligible urban area with a census population<sup>41</sup> of 14,000 to less than 130,000, or
- b) less than 100 kilometres from an eligible urban area with a census population of 130,000 or more.

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<sup>41</sup> Population figures are based on the 1981 Census.



An extended exemption applies to housing fringe benefits provided for employees of a:

- a) public hospital
- b) government body where the duties of the employee are exclusively performed in, or in connection with, a public hospital or a non-profit hospital
- c) public ambulance service, or
- d) police service.

A list of remote and non remote towns is included in ATO Practice Statement Law Administration PS LA 2000/6.

Attachment 1 of the Practice Statement applies to those entities who do not receive the benefit of the extended remote area. Housing benefits provided by these entities to employees in Cairns, Darwin and Townsville will not be treated as exempt remote area housing benefits.

Attachment 2 of the Practice Statement applies to those entities that are able to receive the benefit of the extended remote area. Housing benefits provided by these entities to employees in Cairns, Darwin and Townsville will be treated as exempt remote area housing benefits.

Further information regarding remote area exemptions for housing fringe benefits can be found in Chapter 19 of the Tax Office publication, *Fringe Benefits Tax: A Guide for Employers* (NAT 1054).

## Board fringe benefits



Tax Office: *Fringe Benefits Tax: A Guide for Employers* - Chapter 13

Legislative reference: FBTA Part III Division 9

A board fringe benefit arises where the employee is entitled to have accommodation provided and:

- a) there is an entitlement under an industrial award or an employment arrangement to be provided with at least two meals per day
- b) the meals are supplied by the employer or an associate of the employer
- c) the meal is prepared by the employer or an associate of the employer on business premises or adjacent to business premises, and
- d) the meals are supplied on the business premises of the employer or an associate of the employer.

Meals provided to family members of the employee and living with the employee are also treated as board fringe benefits.

### Identifying board fringe benefits

There are a number of avenues available to identify board fringe benefits including:

- a) ask work area managers whether board fringe benefits have been provided on any business premises
- b) review the fixed asset register for details of properties that indicate that board fringe benefits are provided on those premises. For example, if a property has an in-house commercial kitchen and sleeping quarters, this is an indicator that board fringe benefits may be provided, and
- c) review prior years' FBT returns to identify details of board fringe benefits that were provided in prior FBT years.

### Calculating taxable value of board fringe benefits

The taxable value of board fringe benefits is \$2 per adult per meal and \$1 per child.<sup>42</sup>

A log of meals provided to employees should be maintained so that the taxable value of board fringe benefits can be calculated.

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<sup>42</sup> For this purpose, an adult is a person who has attained an age of 12 years before the beginning of the FBT year.

SECTION 7

LOAN AND DEBT WAIVER  
FRINGE BENEFITS





## SECTION 7

# LOAN AND DEBT WAIVER FRINGE BENEFITS

### Introduction

Loan and debt waiver fringe benefits are not routinely provided by Australian government entities.

### Loan fringe benefits



Tax Office: *Fringe Benefits Tax: A Guide for Employers* - Chapter 8

Legislative reference: FBTAA Part III Division 4

A payment may be classified as a loan if it meets the definition of a loan, even if the parties do not enter into a formal loan agreement. A loan includes any advance of money, the provision of credit or the payment of an amount where there is an obligation to repay. The following payment types may be classified as loan fringe benefits:

- a) overpaid salaries that are to be repaid over a number of periods
- b) FBT contributions owed by an employee who was salary packaging that are repaid in post-tax dollars over a number of periods. For example, in the event that an employee has ceased employment prior to the discrepancy being identified
- c) repayable outlay allowance/advance
- d) a loan for a security deposit/bond, and
- e) loans to employees to purchase housing in a remote area.

## Calculating taxable value of a loan fringe benefit

The taxable value of a loan fringe benefit is the loan amount multiplied by the difference between the rate of interest charged by the entity and the statutory rate of interest.<sup>42</sup> The interest is to be calculated on the outstanding daily balance of the loan.



The overpayment of salary does not constitute a loan benefit as payments of salary or wages are excluded from the definition of fringe benefit. However, a loan benefit may arise where an agreement is entered into whereby an employee is given time to repay an overpaid amount. The benefit arises from the date of the agreement, rather than from the date of the overpayment.

## Exemption

Although a loan benefit will arise from the repayment of overpaid salary over a period of time, a FBT liability will not arise from all such arrangements. Depending upon the facts of the situation, the recovery of overpaid salary by instalment arrangements may be an exempt minor benefit.

In determining whether an FBT liability arises from a repayment of overpaid salary it will be necessary to consider a number of factors including:

- a) whether the overpayment to the employee is a “one-off” occurrence
- b) whether any other loan benefits have been provided to the employee
- c) the period of the year for which the loan was provided, and
- d) the amount of the overpayment.

An exemption is also available for advances to current employees:

- a) to meet work related expenses which are required to be acquitted within six months of the loan being made and any balance repaid, and
- b) repayable with 12 months, paid solely to fund rental bonds or security deposits for utilities or similar amounts in respect of an exempt accommodation benefit or eligible for a reduction in taxable value under the temporary accommodation provisions.

## Sources of information

Overpaid salaries and similar payments made to employees can be identified through the payroll system or with the assistance of payroll staff.

FBT contributions owed by employees will generally be identified by a salary packaging provider or by in-house salary packaging processing staff.

<sup>42</sup>The statutory rate of interest is set by reference to the standard variable rate for owner-occupier housing loans of the major banks that the Reserve Bank of Australia published most recently before the beginning of the FBT year. The Tax Office publishes a taxation determination, usually in April, that specifies the statutory interest rate for the current FBT year.

## Debt waiver fringe benefits



Tax Office: *Fringe Benefits Tax: A Guide for Employers* - Chapter 8

Legislative reference: FBTA Part III Division 3

A debt waiver fringe benefit arises where a debt to an employee or an employee's associate is released. For a debt to be released, there must not be any legal requirement for the lender to repay the amount.

Raising a provision for bad debts does not constitute a debt waiver fringe benefit as there is still a legal requirement for the debt to be repaid.

Australian Government entities rarely waive debts. However, there are occasions on which a debt such as a salary overpayment owed by a former employee will be written off following unsuccessful recovery action.

A debt waiver fringe benefit will not arise when a debt owed by an employee, (or former employee) is written off for reasons that are entirely unrelated to the employee's employment. For example, writing off a debt owed by an employee as a genuine bad debt will not be a debt waiver fringe benefit. The fact that a debt is waived because it is bad rather than because of the employment relationship can be established by, for example, showing that reasonable efforts were made to recover the debt in accordance with internal guidelines such as CEIs and that the waiver was in line with a policy in relation to the waiver of debts owing by non-employees.

### Calculating taxable value of a debt waiver fringe benefit

The taxable value of a debt waiver fringe benefit is the amount of the debt that is waived. Where the loan has accrued interest, the debt waiver is the total of the principal plus interest owed.

Further information in relation to debt waiver fringe benefits can be found in the Tax Office publication, *Fringe Benefits Tax: A Guide for Employers* (NAT 1054).

### Sources of information

Employee debts will form part of the accounts receivable of entities. Information in relation to waived debts should be available from the accounts receivable work area.

There are strict documentation requirements in relation to most Australian Government waived debts. Such documentation will generally be retained by the financial reporting work area. This documentation can be used to identify debt waiver fringe benefits.





# GLOSSARY

|                 |  |
|-----------------|--|
| AGS             | The Australian Government Service (AGS) number is an Australian Government identifier for employees.   |
| ANAO            | Australian National Audit Office.  |
| Associate       | <p>An associate of an Australian Government entity is an Australian Government department, an Executive Agency, a Statutory Agency or an authority of the Commonwealth.</p> <p>State and Territory Government entities are not associates of Australian Government entities for FBT purposes.</p> <p>An associate of an employee is defined in section 26AAB of the <i>Income Tax Assessment Act 1936</i> and includes:</p> <ul style="list-style-type: none"><li>a) a relative of the employee</li><li>b) a partner of the employee, where the employee is a partner in a partnership, or</li><li>c) a spouse or child of a partner covered by part b).</li></ul> |
| ATO, Tax Office | Australian Taxation Office.  |
| BAS             | Business Activity Statement.   |
| Benefit         | A benefit includes any right, privilege, service or facility.  |
| CEI             | Chief Executive Instructions (CEIs) are the high level guidelines issued by entities outlining the procedures to be followed in undertaking business transactions.   |
| CFO             | Chief Financial Officer.   |
| Declaration     | A declaration is a written statement providing information relating to a fringe benefit.   |
| Employee        | <p>Employee means:</p> <ul style="list-style-type: none"><li>- a former employee</li><li>- a current employee, or</li><li>- a future employee.</li></ul> <p>An employee is generally someone who receives, or is entitled to receive, salary and wages in return for work or services provided.</p> <p>For fringe benefits tax purposes 'employee' includes company directors, office holders and common law employee.</p>   |

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|-----------------------------|--|
| Excluded fringe benefit     | Fringe benefits that are not included in an employee's individual fringe benefits amount and are not required to be reported on payment summaries. For example, meal entertainment fringe benefits, car parking fringe benefits, entertainment facility leasing expenses and certain remote area benefits. |
| Exempt benefit              | Exempt benefits are benefits that are legislated to be exempt.   |
| FBT                         | Fringe Benefits Tax.   |
| FBTA                        | The <i>Fringe Benefits Tax Act 1986</i> imposes tax on the taxable value of fringe benefits.   |
| FBTAA                       | The <i>Fringe Benefits Tax Assessment Act 1986</i> establishes the rules for assessing and collecting FBT.   |
| FBT(AC)A                    | The <i>Fringe Benefits Tax (Application to the Commonwealth) Act 1986</i> operates so that the FBT law applies to Australian Government entities.  |
| FBT return or annual return | An annual fringe benefits tax return for the period 1 April to 31 March must be lodged with the Tax Office by 21 May each year, unless an extension of time to lodge has been granted by the Tax Office.   |
| Fleet provider              | A third party that provides executive vehicle scheme vehicles or salary packaged vehicles.   |
| Fringe benefit              | A fringe benefit is a benefit provided in respect of employment. This effectively means a benefit provided to an employee or his or her associate because that person is an employee. The employee may be a current, former or future employee.  |
| FBT year                    | The FBT year is 1 April to 31 March.   |
| FMIS                        | Financial Management Information System.   |
| GL                          | General Ledger.  |
| Grossing-up                 | Grossing-up means increasing the taxable value of benefits provided to approximately reflect the gross salary employees would have to earn at the highest marginal tax rate (including Medicare Levy) to purchase the benefits.  |
| GST                         | Goods and Services Tax.  |
| HECS/HELP                   | Higher Education Contribution Scheme/Higher Education Loan Program.  |
| iCMS                        | The Integrated Creditor Management System is a computerised system for the management of corporate credit cards.   |
| ID                          | In the context of an employee, it means identification number.   |

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|---------------------------|--|
| Information systems       | All systems that support processing. Includes information technology systems such as the FMIS and spreadsheets as well as manual processes such as paper documentation.  |
| ITC                       | Input Tax Credit. This is the GST that has been paid on business inputs.   |
| LAFH                      | LAFH is a reference to living away from home.  |
| LAFHA                     | Living Away from Home Allowance. LAFHA is an allowance the employer pays to an employee to compensate for estimated expenses incurred, or estimated expenses and any disadvantage suffered, because the employee is required to live away from their usual place of residence in order to perform employment duties.   |
| Otherwise deductible rule | The taxable value of a benefit may be reduced by the amount which an employee would have been entitled to claim as a once only income tax deduction. This is known as the otherwise deductible rule.   |
| Private ruling            | The Tax Office issues rulings and determinations to advise taxpayers of the correct interpretation and application of tax law, including FBT law. Any entity uncertain about its FBT liability arising from a particular arrangement, may apply to the Tax Office for a private ruling on that arrangement.  |
| RFBA                      | Reportable Fringe Benefit Amount. Any employer who provides non-excluded fringe benefits to an employee or their associate with a total taxable value of more than \$1 000 for an FBT year (1 April to 31 March) must record the grossed-up taxable value of the benefits on the employee's payment summary for the corresponding income year (1 July to 30 June). The gross-up rate is always 1.9417 regardless of whether the benefits provided to the employee are type 1 or type 2 benefits. |
| Taxable value             | This is the value of a fringe benefit before it is grossed-up. This may be the actual amount paid for the benefit or an amount calculated according to a formula specified in the <i>FBTAA</i> .   |
| Type 1 benefit            | The type 1 gross-up rate is used where the provider of the benefit is entitled to claim an input tax credit in respect of the benefit provided, whether or not the input tax credit was claimed.   |
| Type 2 benefit            | The type 2 gross-up rate is used where the provider of the benefit is not entitled to claim an input tax credit in respect of the benefit provided.  |
| 12 week register method   | One method for calculating the taxable value of the meal entertainment is to keep a 12 week register of entertainment provided and, based on this register, determine the percentage of entertainment that is provided to employees or their associates. This is known as the 12 week register method. A 12 week register may also be maintained to calculate the number of car parking benefits provided.   |
| 50/50 method              | One method for calculating the taxable value of the meal entertainment is to pay FBT on 50% of the total value of meal entertainment provided to employees and non-employees. This is known as the 50/50 method. The 50/50 method may also be used to calculate the taxable value of entertainment facility leasing expenses.  |





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