

FBT Checklist 2006/07



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The checklist prepared by Moore Stephens on behalf of the Board Public Practice Committee is a summary guide to the procedures and mechanics for preparing the 2006/2007 FBT return. Accordingly, it cannot cover all the issues and therefore practitioners are recommended to refer to the relevant legislation.

- Step 1** Identify the potential areas of expenditure or benefits that may be subject to fringe benefits tax (refer pages 4 to 11 for a checklist of benefits that may give rise to fringe benefits tax)
- Step 2** Determine what information is required to be extracted from the accounting records. This depends upon:
- the category of the benefit (refer pages 4 to 11 for categories of the more common types of benefits)
 - the method or formula selected (refer to step 3 below)
- Step 3** Choose the formula which gives the most tax effective result for the effort expended (refer pages 12 to 15 for a list of formulae)
- Step 4** Perform and record calculations, ensuring the necessary documentation is kept to substantiate the taxable value. Please note that this should also include calculations and recording of benefits that are either exempt or have a nil value.
- Step 5** Compilation of the FBT return
- Step 6** Consider tax planning opportunities for 2006/2007 fringe benefits tax year and salary packaging options (refer page 19-20)

| Expenditure/Benefit | Applicable Completed Date | Work Page | Data Required | Type of Benefit |
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| Motor Vehicle Expenses | | | | |
| <p><i>Benefit arises where:</i></p> <ul style="list-style-type: none"> • a car is owned or leased by the employer, associate or third party • is made available to the employee/ associate for private purposes, and • the car is provided in respect of employment <p><i>Exemptions include:</i></p> <ul style="list-style-type: none"> • minor use by an employee of certain commercial vehicles such as panel vans, taxis or utilities designed to carry a load of less than one tonne • unregistered vehicles | | | <p>Operating cost method (refer formula 1.1)</p> <ul style="list-style-type: none"> • Log Book kept over a 12 week period to establish the business percentage • Car expenses—such as petrol and repairs, registration and insurance • Depreciation and imputed interest (where the car is owned) • Lease costs (where the car is leased) • Employee contributions (if any) | Car Fringe Benefit |
| | | | <p>Statutory formula method (refer formula 1.2)</p> <ul style="list-style-type: none"> • Cost of motor vehicle • Date of purchase • Odometer readings at the beginning and end of the year • Employee contributions (if any) | Car Fringe Benefit |
| | | | <p>Reimbursement of employee's motor vehicle expenses</p> <ul style="list-style-type: none"> • Amount of expense • Percentage of private use • Employee contributions (if any) | Expense Fringe Benefit |
| <p><i>Benefit arises where:</i></p> <ul style="list-style-type: none"> • car expenses are reimbursed by the employer, • the car is owned/leased by the employee/associate, and • the benefit is provided in respect of employment <p><i>Exemptions include:</i></p> <ul style="list-style-type: none"> • where the employer compensates the employee on a cents per kilometre basis (the amount of the reimbursement is income to the employee) | | | | |

| Expenditure/Benefit | Applicable Completed Date | Work Page | Data Required | Type of Benefit |
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| Loans | | | | |
| <p><i>Benefit arises where:</i></p> <ul style="list-style-type: none"> • a loan is provided to an employee/ associate, and • the loan is provided in respect of the employee's employment <p><i>Exemptions include:</i></p> <ul style="list-style-type: none"> • loans given to a current employee to meet employment-related expenses which will be incurred within 6 months. The loan must be either expended on employment related expenditure or repaid. | | | <p>Loan Benefit <i>(refer formula 2)</i></p> <ul style="list-style-type: none"> • Date the loan commenced • Amount of the loan • Purpose of the loan (ie if income producing this will reduce the amount of the fringe benefit) • Interest paid by the employee (if any) • Balance of the loan during the period • Declaration may be required | Loan Fringe Benefit |
| Debt Waiver | | | | |
| <p><i>Benefit arises where:</i></p> <ul style="list-style-type: none"> • the employer has released the employee/associate from paying an outstanding debt <p><i>Exemptions include:</i></p> <ul style="list-style-type: none"> • where the debt owed is written off as a genuine bad debt | | | <p>Debt Waiver Benefit</p> <ul style="list-style-type: none"> • Amount of the debt waived, including any interest accrued • Reason for writing off the debt | Debt Waiver Benefit |

| Expenditure/Benefit | Applicable Completed Date | Work Page | Data Required | Type of Benefit |
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| Housing | | | | |
| <p><i>Benefit arises where:</i></p> <ul style="list-style-type: none"> • an employee/associate is provided with the right to use a unit of accommodation, and • the accommodation is the usual home of the employee/associate <p><i>Exemptions include:</i></p> <ul style="list-style-type: none"> • Remote area housing • Housing fringe benefits provided by primary producers in remote areas in respect of primary production employment are exempt <p><i>Benefit arises where:</i></p> <ul style="list-style-type: none"> • an allowance is paid to compensate an employee/associate for additional expenses because the employee is required to live away from his/her usual home <p><i>Exemptions include:</i></p> <ul style="list-style-type: none"> • Amount of the allowance which is regarded as constituting reasonable compensation for the accommodation component, and • Amount of the allowance in relation to the additional food component (ie the amount over \$42 for adults and \$21 for children under 12) <p>Where an allowance (other than a LAFHA) is paid to an employee, rather than the employer paying or reimbursing the expense directly, there will be no fringe benefit. The employee is required to include the allowance as income in their personal tax return.</p> | | | <p>Housing Benefit <i>(refer formula 3)</i></p> <ul style="list-style-type: none"> • Market value of the accommodation • Employee contributions (if any) | Housing Fringe Benefit |
| | | | <p>Living Away From Home Allowance (LAFHA) <i>(refer formula 4)</i></p> <ul style="list-style-type: none"> • Amount of the allowance paid detailing the following components: <ul style="list-style-type: none"> • Accommodation • Additional food • Other incidentals • Declaration may be required | LAFHA Benefit |
| | | | <p>Other Allowances</p> <ul style="list-style-type: none"> • No information is required to be kept for FBT purposes | No Fringe Benefit Arises |

| Expenditure/Benefit | Applicable Completed Date | Work Page | Data Required | Type of Benefit |
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| Travelling Expenses | | | | |
| <p><i>Benefit arises when:</i></p> <ul style="list-style-type: none"> • expenses are paid or reimbursed by the employer, and • the benefit is provided in respect of employment <p><i>Exemptions include:</i></p> <ul style="list-style-type: none"> • compassionate travel • certain relocation transport | | | <p>Extended Travel</p> <ul style="list-style-type: none"> • Travel diary is required where the travel is either within or outside of Australia for a duration of more than 5 nights (this is to substantiate the business portion) • Receipts for all expenses, except if the amount spent on food, drink and other incidentals is considered reasonable by the Taxation Office, in which case only documentation in relation to accommodation and airfares is required • Declaration may be required | Expense Fringe Benefit |
| <p><i>Benefit arises where:</i></p> <ul style="list-style-type: none"> • taxi fare is paid or reimbursed by the employer, and • the benefit is provided in respect of employment <p><i>Exemptions include:</i></p> <ul style="list-style-type: none"> • taxi travel beginning or ending at an employee's place of work is exempt so long as it is a single trip • the travel is in relation to a sick employee • minor benefit not exceeding \$100 (inc. GST) | | | <p>Taxis</p> <ul style="list-style-type: none"> • Amount of expense • Employee contributions (if any) | Expense Fringe Benefit |
| <p><i>Benefit arises where:</i></p> <ul style="list-style-type: none"> • an employee of the travel industry is provided with free or discounted travel on a stand-by basis <p><i>Exemptions include:</i></p> <ul style="list-style-type: none"> • \$500 exemption applies in respect of the taxable value of benefits provided to each recipient | | | <p>Airline Transport <i>(refer formula 5)</i></p> <ul style="list-style-type: none"> • Purpose of the trip • If domestic travel—the lowest standard economy fare published by the airline • If international travel—lowest fare published in Australia • Employee contributions (if any) | Airline Transport Fringe Benefit |

| Expenditure/Benefit | Applicable Completed Date | Work Page | Data Required | Type of Benefit |
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| Entertainment Expenses—Meal | | | | |
| <p><i>Benefit arises where there is:</i></p> <ul style="list-style-type: none"> entertainment by way of food or drink, or accommodation or travel in connection with the provision of entertainment by way of food or drink <p>The benefit must be provided in respect of employment</p> <p><i>Exemptions include:</i></p> <ul style="list-style-type: none"> employer amenities morning and afternoon teas and light lunches meals at a continuing professional development seminar meals entertainment provided to client. Although there is no FBT payable on meals entertainment provided to clients, an income tax deduction is not allowed to the employer minor entertainment not exceeding \$100 (inc. GST) | | | <p>50/50 Split Method <i>(refer formula 7.1)</i></p> <ul style="list-style-type: none"> Amount of expense for all persons (ie employees, associates and clients) | Meal Entertainment Fringe Benefit |
| | | | <p>12 Week Register Method <i>(refer formula 7.3)</i></p> <p>12 week register which details:</p> <ul style="list-style-type: none"> The date, cost and place of the meal entertainment Whether the meal is provided to an employee or associate (per head allocation) | Meal Entertainment Fringe Benefit |
| | | | <p>Actual Expenditure Method</p> <ul style="list-style-type: none"> Amount of expense Employee contributions (if any) Per head allocation <p>An election must be made for the entertainment to be treated as a meal entertainment fringe benefit. If no election is made the value of the benefit must be determined under the actual expenditure method.</p> | Expense / Property / Residual Fringe Benefit |

| Expenditure/Benefit | Applicable Completed Date | Work Page | Data Required | Type of Benefit |
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| Entertainment Expenses—Other | | | | |
| <p><i>Benefit arises where entertainment is provided by way of:</i></p> <ul style="list-style-type: none"> • food or drink, • recreation, accommodation, or travel <p>The benefit must be provided in respect of employment</p> <p><i>Exemptions include:</i></p> <ul style="list-style-type: none"> • entertainment provided to clients • minor entertainment not exceeding \$100 (inc. GST) per employee | | | <p>Reimbursement Of Entertainment Expense</p> <ul style="list-style-type: none"> • Amount of expense • Employee contributions (if any) | Expense Fringe Benefit |
| | | | <p>Tickets To Sporting And Theatrical Event</p> <ul style="list-style-type: none"> • Cost of the tickets • Employee contributions (if any) | Property Fringe Benefit |
| Entertainment Provided By A Tax Exempt Body | | | | |
| <p><i>Benefit arises where:</i></p> <ul style="list-style-type: none"> • the employer is wholly or partially exempt from income tax or does not derive assessable income from the activities to which the entertainment relates <p>The benefit must be provided in respect of employment</p> | | | <p>Entertainment Benefit</p> <ul style="list-style-type: none"> • Amount of expense • Employee contributions (if any) • Per head allocation | Tax Exempt Body Entertainment Fringe Benefit |
| Other Expenses Paid On Behalf Of The Employee Or Associate | | | | |
| <p><i>Benefit arises where:</i></p> <ul style="list-style-type: none"> • expenses are paid or reimbursed by the employer, and • the benefit is provided in respect of employment <p><i>Exemptions include:</i></p> <ul style="list-style-type: none"> • the first \$500 of any in-house benefits • laptop computers • mobile phones • certain relocation benefits • tools of trade • certain 'remote area' expenses • minor benefit not exceeding \$100 (inc. GST) | | | <p>Expense Benefit</p> <ul style="list-style-type: none"> • Amount of expense • Percentage of private use • Employee contributions (if any) • Declaration may be required | Expense Fringe Benefit |

| Expenditure/Benefit | Applicable Completed Date | Work Page | Data Required | Type of Benefit |
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| Car Parking Expenses | | | | |
| <p><i>Benefit arises where:</i></p> <ul style="list-style-type: none"> • there is a commercial all day carpark within a one kilometre radius of the business premises that charges more than \$6.62 a day at the beginning of the FBT year • the car is parked for a period of more than 4 hours between 7.00am and 7.00pm • the car is owned or leased by the employee/associate, or is provided for use by the employer • the benefit is provided in respect of employment • the car is used for travel between home and work by the employee, and • the car is parked at or in the vicinity of the primary place of employment <p><i>Exemptions include:</i></p> <ul style="list-style-type: none"> • Car parking benefits provided by small business owners (i.e. those businesses where income does not exceed \$10 million) are exempt so long as the car parking benefit is not one provided at a commercial car parking station • Car parking benefits provided by certain non-profit bodies, including public benevolent institutions • Benefits exempted by regulations, such as parking for the disabled | | | <p>Actual Benefits Provided Method</p> <ul style="list-style-type: none"> • Number of car parking spaces provided to employees • Value of the spaces • Number of business days during the year • Method of valuation used • Employee contributions (if any) • Consideration of annual leave and/or sick leave taken (i.e. car parking benefit not actually provided) | Car Parking Fringe Benefit |
| | | | <p>Statutory Formula Method <i>(refer formula 8.1)</i></p> <ul style="list-style-type: none"> • Value of the spaces • Method of valuation used • Employee contributions (if any) | Car Parking Fringe Benefit |
| | | | <p>12 Week Register Method <i>(refer formula 8.2)</i></p> <p>12 week register which details:</p> <ul style="list-style-type: none"> • Identification of the vehicle • The date and place the car was parked, with times of entry and departure • The nature of the journey to and from the car park • Value of the spaces • Method of valuation used | Car Parking Fringe Benefit |

| Expenditure/Benefit | Applicable Completed Date | Work Page | Data Required | Type of Benefit |
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| Car Parking Expenses continued... | | | | |
| <p><i>Benefit arises where:</i></p> <ul style="list-style-type: none"> the car is parked for a period of more than 4 hours between 7.00am and 7.00pm the benefit is provided in respect of employment, and the car is used for travel between home and work by the employee <p>Note: There is no requirement relating to the provision or ownership of the car being parked</p> | | | <p>Reimbursement Of Car Parking Expenses</p> <ul style="list-style-type: none"> Amount of expense Employee contributions (if any) | Expense Fringe Benefit |
| Board | | | | |
| <p><i>Benefit arises where:</i></p> <ul style="list-style-type: none"> the employee/associate under either an industrial award or under some type of arrangement is entitled to residential accommodation and at least two meals a day, and the meal is prepared on the employer's premises | | | <p>Board Benefit <i>(refer formula 6)</i></p> <ul style="list-style-type: none"> Number of employees (or family members) receiving the board Number of days board provided Number of meals provided Employee contributions (if any) | Board Fringe Benefit |
| Other Benefits Paid On Behalf Of The Employee Or Associate | | | | |
| <p><i>Benefit arises where:</i></p> <ul style="list-style-type: none"> the employer has provided property (either in-house or external), and the benefit is provided in respect of employment <p><i>Exemptions include:</i></p> <ul style="list-style-type: none"> the first \$500 of any in-house benefits | | | <p>Property Benefit <i>(refer formula 9)</i></p> <ul style="list-style-type: none"> Description of property provided Type of property (ie in-house or external) Arm's length price of the property Employee contribution (if any) | Property Fringe Benefit |
| <p><i>Benefit arises where:</i></p> <ul style="list-style-type: none"> the employer has provided benefits not covered by other valuation rules <p><i>Exemptions include:</i></p> <ul style="list-style-type: none"> the first \$500 of any in-house benefits | | | <p>Residual Benefit <i>(refer formula 9)</i></p> <ul style="list-style-type: none"> Description of benefit Type of benefit (ie in-house or external) Arm's length price of the benefit Employee contributions (if any) | Residual Fringe Benefit |

1 Motor Vehicle Expenses

A car is considered to be available for private use if it is garaged at or near the employee's home or is in the employee's custody or control. Registration, stamp duty and extended warranty costs are not included in calculating the cost of the car. However dealer delivery charges are included as well as the GST and customs duty paid on the motor vehicle (if applicable).

1.1 Operating Cost Method

$$\text{Taxable Value} = \left[(\text{Total vehicle costs (including depreciation and imputed interest where the vehicle is owned)})^* \times \text{private use percentage} \right] \text{ less employee contributions}$$

* Depreciation is calculated on the full value of the car (ie it is not subject to the depreciation cost limit) at the rate of 22.5% for cars acquired before 1.7.2002 and at the rate of 18.75% for cars acquired on or after 1.7.2002. Imputed interest is calculated at the statutory rate (7.30% for the 2006/2007 FBT year).

1.2 Statutory Formula Method

$$\text{Taxable Value} = \left[\frac{\text{Cost of Car}^* \times \text{statutory fraction}^{**} \times \text{no of days of private use}}{365} \right] \text{ less employee contributions}$$

* Where the car has been owned or leased for four years at the beginning of a fringe benefits tax year, the value of the car is reduced by one-third.

** The applicable statutory fractions are:

| Annualised Kilometres | Statutory Fraction |
|-----------------------|--------------------|
| Less than 15,000 kms | .26 |
| 15,000–24,999 | .20 |
| 25,000–40,000 | .11 |
| More than 40,000 | .07 |

2 Loan Fringe Benefit

If an employee is also a shareholder/beneficiary and the loan is made in respect of that relationship, rather than the employment relationship, the loan will not be subject to fringe benefits tax, but there may be a deemed dividend under section 108 or Division 7A of the Income Tax Assessment Act for certain loans given to shareholders.

If the loan is being used for income producing purposes the employee must provide a declaration that the loan is being used for income-producing purposes, otherwise the taxable value will not be reduced pursuant to the 'otherwise deductible rule'.

$$\text{Taxable Value} = \left[\text{Interest calculated at benchmark statutory rate}^* \text{ less Actual Interest}^{**} \right] \text{ less employee contributions less otherwise deductible amount}$$

* The benchmark statutory interest rate for the year ending 31.3.2007 is 7.30%. This is only applicable to the private portion of the loan.

** This is the actual interest paid on the private portion of the loan.

3 Housing

Non-remote Area

Flats, houses and units—market value less employee contribution (if any). In subsequent years, the market value can be used again, or alternatively the market value in the first year can be indexed using the CPI movement for a further 9 years. The CPI factor applied will depend on the State or Territory in which the property is located.

Caravans, mobile homes, hotels and motels—market value less employee contribution (if any).

Accommodation workers (eg hotel, caravan park employees etc)—75% of the charge to the public less employee contribution (if any).

Remote Area

The provision of remote area housing is exempt from FBT.

Outside Australia

- Market value less employee contribution.

4 Living Away From Home Allowance

$$\text{Taxable Value} = \text{Allowance Paid} \text{ less } \text{Exempt accommodation component} \text{ less } \text{Exempt food component}$$

Exempt Accommodation Component

The exempt accommodation component is not taxable where the costs incurred for rental, lease or other payment for accommodation (i.e. mortgage payment) are reasonable. Any amount in excess of what is considered reasonable is taxable.

Exempt Food Component

The exempt food component relates to the amount of food allowance that compensates the employee for “additional” food expenses arising from living away from home. The “additional” amount is exempt up to the reasonable food component limit. The Commissioner’s view on the reasonable exempt food component for the 2006/07 year are set out in TD 2006/23.

The exempt food component can be either the food component the employee receives or can be calculated with an amount deducted relating to “normal” home consumption expenditure.

The exempt food component can be calculated using the following formula:

$$\text{EFC} = \text{A} - (\text{B} - \text{C})$$

EFC = exempt food component

A = food component of the employee’s allowance

B = sum of the statutory food amounts with respect to the employee and eligible family members

C = deducted home consumption expenditure.

5 Airline Transport Fringe Benefit

Domestic Travel

- 37.5% of the lowest standard economy fare published by the airline less employee contributions (if any) less otherwise deductible amount (if applicable).

International Travel

- 37.5% of the lowest fare published in Australia by the airline less employee contributions (if any) less otherwise deductible amount (if applicable).

6 Board Fringe Benefit

$$\text{Aged 12 years or over} = \$2.00 \text{ per meal} \times \text{Number of meals provided} \text{ less employee contribution less otherwise deductible amount}$$

$$\text{Aged under 12 years} = \$1.00 \text{ per meal} \times \text{Number of meals provided} \text{ less employee contribution less otherwise deductible amount}$$

7 Entertainment expenses—Meal

7.1 50/50 Split Method

$$\text{Taxable Value} = \text{Total value of meal entertainment fringe benefits provided to all persons} \times 50\%$$

Under this method, 50% of all meal entertainment expenses is tax deductible and subject to fringe benefits tax, while the remaining 50% is not tax deductible and is not subject to fringe benefits tax.

7.2 Actual Record Of Expenditure

An actual record of expenditure is kept using an actual cost or average cost (per head apportionment) basis.

7.3 12 Week Register Method

$$\text{Register Percentage} = \frac{\text{Total value of meal entertainment fringe benefits provided to employees and their associates during the 12 week period}}{\text{Total value of meal entertainment fringe benefits provided to all persons during the 12 week period}}$$

$$\text{Taxable Value} = \text{Total value of meal entertainment fringe benefits provided to all persons} \times \text{Register percentage}$$

It is important to remember the following when deciding on which method to use when calculating meal entertainment fringe benefits:

50/50 Split Method:

- by combining meal entertainment for both employees and non-employees, the formula assumes that only 50% of meal entertainment is provided to non-employees. If in fact more than 50% is respect of non-employees, this additional amount will be allowed as a tax deduction, but FBT will be payable on the grossed up amount.
- the otherwise deductible rule doesn't apply, nor are any employee contributions taken into account.
- the exemptions for property and minor FBT benefits are not applicable.

12 Week Register Method:

- Only if the FBT calculated over the 12 week period is indicative of the entire year will the FBT payable equate to the meal entertainment actually provided
- the otherwise deductible rule doesn't apply, nor are employee contributions taken into account
- the exemptions for property and minor FBT benefits are also not applicable

Attached at Appendix A is a summary of the deductibility of entertainment.

Attached at Appendix B is a standard form to document entertainment fringe benefits.

8 Car parking fringe benefit

There are three methods of determining the value of car parking fringe benefits:

- Commercial parking station method—the lowest fee charged, for all day parking, by any commercial parking station within a 1 km radius of where the car is parked
- Market value/arm's length method—value determined by a qualified valuer
- Average cost method—the average of the lowest fees charged on the first and last day of the FBT year

There are three methods of determining the number of car parking fringe benefits:

- Actual benefits provided method
- Statutory formula method
- 12 week register method

8.1 Statutory Formula Method

$$\text{Taxable Value} = \left[\text{Daily rate amount}^* \times \frac{\text{Number of days benefit provided}}{366}^{**} \times 228 \right] \text{ less employee contributions}$$

* Daily rate amount is the value of the spaces calculated using one of the three methods described above (Commercial Parking Station, Market Value or Average Cost Method).

** Note that the formula per the legislation uses 366 days as its base for the number of days in a year.

8.2 12 Week Register Method

$$\text{Taxable Value} = \text{Total value of car parking benefits (per register)} \times \frac{52}{12} \times \frac{\text{Number of days benefits provided}}{366}^*$$

* Note that the formula per the legislation uses 366 days as its base for the number of days in a year.

9 Property and residual benefits

The taxable value is generally the arm's length value of the benefit. However, for in-house benefits, or rejects or reduced value benefits, the taxable value is generally either 75% of the arm's length value or 75% of the lowest public price charged. The taxable value is reduced by any employee contributions and any otherwise deductible amounts.

Gross Up Rules

To ensure neutrality between an employee receiving a fringe benefit or cash salary within the context of the GST system, changes were introduced to the way in which the relevant gross up formula is calculated.

The fringe benefits taxable amount is dependent on the relevant gross-up formula. A higher gross-up formula has been introduced to take into account the effect of input tax credits being able to be claimed in certain circumstances in respect of GST paid on some fringe benefits. The lower gross-up rate is still applicable in certain circumstances and is 1.8692. The higher gross-up rate is 2.0647.

Which of these gross-up rates is to be applied depends on whether the amounts are "type 1 aggregate fringe benefits amounts" or "type 2 aggregate fringe benefits amounts".

Type 1 Aggregate Fringe Benefits Amounts

The 'type 1 aggregate fringe benefits amount' represents the total value of fringe benefits provided to employees or their associates where the provider of the benefit (ie. employer) was entitled to input tax credits (assuming the entity is registered for the GST) at the time the benefit was acquired. The amount is then grossed-up to a GST inclusive value by applying the higher FBT gross-up formula, that is:

This gross-up formula effectively recoups any input tax credits arising from the provision of fringe benefits. A Type 1 aggregate fringe benefits amount is multiplied by 2.0647.

Type 2 Aggregate Fringe Benefits Amounts

The second type of aggregate fringe benefits amount provides for situations where:

- fringe benefits are provided and their taxable value is determined before the introduction of the GST (pre -1 July 2000);
- fringe benefits are GST-free or input taxed;
- the goods or services are not acquired by the employer, for example, the goods or services are manufactured;
- small business employers have opted not to register for the GST.

This gross up formula means that the Type 2 aggregate fringe benefits amount is multiplied by 1.8692

FBT Concessional Treatment Of Public Benevolent Institutions (PBI), FBT Rebatable Employers And Private Not-For-Profit And Public Hospitals

Public benevolent institutions and charitable institutions

Concessional FBT treatment is available to PBI's, charitable institutions and private not-for-profit and public hospitals.

For PBI's and charitable institutions, no FBT is payable on the grossed-up taxable value of benefits provided up to a threshold limit of \$30,000 per employee. For private not-for-profit and public hospitals, the threshold limit is \$17,000 per employee.

Any amount of fringe benefits in excess of these threshold amounts will be subject to normal FBT treatment. However, certain benefits, such as entertainment by way of food or drink, car parking fringe benefits or hiring or leasing entertainment facilities, such as corporate boxes, are excluded from the concessional limits and remain exempt from FBT, regardless of the value of other benefits provided to an employee.

FBT rebatable employers

FBT rebatable employers are certain non-profit, non-government employers who are eligible for a rebate of 48 per cent of the FBT that would otherwise be payable. The rebatable amount available to eligible rebatable employers is limited to \$30 000 of grossed-up taxable value of fringe benefits provided to each employee. However, certain fringe benefits, such as entertainment by way of food or drink, car parking and hiring or leasing entertainment facilities such as corporate boxes are excluded from the concessional limits. The rebate will still be allowable in relation to these benefits, regardless of the value of other fringe benefits provided to an employee.

Reportable Fringe Benefits And Payment Summaries

Where an employee's total taxable value of fringe benefits provided (excluding meal entertainment and car parking) exceeds \$1,000, the employer is required to include the grossed-up taxable amount of the fringe benefits provided to the employee on the employee's Payment Summary.

From 1 April 2007, the fringe benefits reporting exclusion threshold will increase from \$1,000 to \$2,000.

FBT Gross up rate

According to the Tax Office, the higher FBT gross-up rate will not affect the calculation of an employee's reportable benefits amount. When calculating an employee's individual fringe benefits amount, employers will continue to use the lower gross up rate of 1.8692 for reporting on the employee's Payment Summary. This is regardless of whether benefits provided to employees are "type 1" or "type 2" benefit.

The following example examines the cost to an employer in providing type 1 or type 2 fringe benefits as opposed to paying a salary.

"A Fringe Benefit Provided By a Company—Value \$1,100 (incl GST)"

| | Type 1 aggregate fringe benefit amount Gross up rate: 2.0647 | | Type 2 aggregate fringe benefit amount Gross up rate: 1.8692 | |
|-----------------------------------------------------------------------|-----------------------------------------------------------------|--------------------------|-----------------------------------------------------------------|--------------------------|
| | Employer is entitled to an input tax credit | | Employer is not entitled to an input tax credit | |
| (1) Cost to employer | | | | |
| | | Taxes paid to ATO | | Taxes paid to ATO |
| (a) Benefit | \$ | \$ | \$ | \$ |
| Cost of benefit (GST incl) (A) | 1,100 | | 1,100 | |
| GST paid (B) | - | | 100 | |
| Less Input tax credit (C) | 100 | | - | |
| Net cost of benefit (D) | 1,000 | | 1,100 | |
| Gross up for FBT (F=A x Gross up rate) | 2,271 | | 2,056 | |
| FBT payable at 46.5% (G=F x 46.5%) | | 1,056 | | 956 |
| Total tax paid/payable (H) | | 1,056 | | 956 |
| Less Income tax deduction at 30% (I=(D+G) x 30%) | 617 | | 617 | |
| Cost to employer (J=D+G-I) | 1,439 | | 1,439 | |
| (b) Salary | | | | |
| Equivalent to providing a salary of: | | | | |
| Gross salary to employee | 2,136 | | 2,136 | |
| Less Income tax deduction at 30% | 617 | | 617 | |
| Cost to employer | 1,519 | | 1,519 | |
| (2) Cost to employee | | | | |
| (a) Benefit | | | | |
| Salary forgone | 2,136 | | 2,136 | |
| Notional tax payable at 46.5% (equivalent to FBT paid by employer) | 993 | | 993 | |
| Cost to employee | 1,143 | | 1,143 | |
| (b) Salary | | | | |
| This is equivalent to receiving a salary of: | | | | |
| Gross salary | 2,136 | | 2,136 | |
| Tax payable at 46.5% | 993 | | 993 | |
| Cost to employee | 1,143 | | 1,143 | |

Declarations

- Car fringe benefit declaration
- Expense/residual/property benefit declaration

If applicable one of the following declarations can be made in its place:

- No private use declaration
- Recurring benefits declaration (can be used for a period of up to 5 years)

Note: for expense payment fringe benefit in relation to 'extended travel' a travel diary is required. Also, there is no private use declaration for property fringe benefits.

- Loan fringe benefit declaration
- Airline transport fringe benefit declaration
- Living away from home declaration

Key Features of Declarations include:

- name of employee
- applicable dates
- nature of the expense, etc
- purpose of incurring the expenses, etc
- the percentage the expenses, etc, were included in earning assessable income

EXPENSE PAYMENT FRINGE BENEFIT DECLARATION

I, _____, declare that expenses of _____

(show nature of expense e.g. telephone rental and/or calls)

\$ _____ from _____ 20 _____ to _____ 20 _____

(amount in figures)

for the following purpose(s): _____

(Please give sufficient information to demonstrate the extent to which the expenses were incurred for the purpose of earning your assessable income.)

I also declare that the percentage of those expenses incurred in earnings my assessable income was _____ %

Log Books

To establish the business use of a motor vehicle there are two types of records that must be maintained—being logbook records and odometer records. In a logbook year both types of records must be maintained. A logbook generally has to be completed once every five years, and must contain information such as the date, the odometer readings at the beginning and end of each journey, the distance travelled and the purpose of the journey. Odometer records are the total distance travelled during the FBT year.

General Advantages of Salary Packaging

- Any benefits packaged are not taken into account when calculating the superannuation guarantee charge obligations.
- Employee loyalty. Employees may be more likely to remain with an employer where a significant portion of their salary is packaged—eg. a motor vehicle.
- Exempt and concessional benefits are not fully subject to payroll tax and workcover.

Motor Vehicles

The Statutory Formula method in relation to the calculation of the motor vehicle fringe benefit, still treats motor vehicles as a 'concessional' fringe benefit. This is especially applicable when:

- there is a high number of total kilometres travelled, but there is a low business use of the motor vehicle
- it is a low cost vehicle

As the statutory formula method of calculating fringe benefits is based on the number of days the car is available for private use, there is the possibility of reducing the fringe benefit by reducing the number of days the car is used. For example, if an employee has two cars available to use, the high cost car could remain on the employer's premises during the working week, and used only on the weekends. The second vehicle, which is owned by the employee can be used during the week to travel to and from work. The taxable value of the car can be reduced significantly using this strategy.

Leases entered into after 20th August 1996 may affect the method of packaging an employee's motor vehicle. Leases for motor vehicles in excess of \$57,009 (ie the depreciation cost limit for the 2006/2007 financial year) entered into after this date will be treated in a similar way as to hire purchase arrangements.

Where an employee purchases a motor vehicle at the end of a lease, there will be no FBT implications if the amount paid by the employee equals the residual payment and the lease was a bona fide lease. IT 28 set out that lease is a bona fide where the residual value exceeds the minimum residual value taking into account the original cost of the motor vehicle and the term of the lease. Also, there are no FBT implications if the employee subsequently sells the motor vehicle for a value higher than the residual payment.

Superannuation

Complying superannuation funds (including benefits paid from such funds) are exempt from FBT as they are concessional taxed under separate provisions in the income tax law.

The attractiveness of salary packaging additional superannuation contributions has recently been further enhanced by major reforms to Australian superannuation rules announced in the 2006 Federal Budget. From 1 July 2007, superannuation will become a much more tax effective form of investment for most Australians.

Key changes from 1 July 2007 include:

- Most people over 60 years of age will be able to withdraw their accumulated superannuation funds free from further exit taxes.
- The "reasonable benefit limit" cap that previously applied to punitively tax superannuation benefits paid to an individual in excess of prescribed caps will be abolished. This has been replaced by a \$50,000 per annum cap on concessional (e.g. employer) contributions and a \$150,000 per annum cap on non-concessional (e.g. personal) contributions, subject to transitional concessions for older Australians, and in the lead up to 1 July 2007.

Superannuation Guarantee Charge (SGC)

As the minimum amount of the superannuation that is required to be paid by the employer is based on the salary of the employee, the lower the salary component of the total salary package, the lower the mandatory superannuation that is required to be paid.

Computers

There is a FBT exemption for a portable (lap top) computer provided to an employee. One computer is allowed per year per employee. Any peripheral equipment is not typically included in the exemption. However business related software is exempt.

Mobile phones

Car phones and mobile phones provided to employees will be exempt from FBT where they are used primarily in the employee's employment.

Other exemptions

Protective clothing, briefcases, calculators, tools of trade, subscriptions to trade and professional journals, newspapers and periodicals, airport lounge memberships, electronic diaries, corporate credit card membership fees and flight deck/golden wing are exempt from FBT.

Other exemptions include:

- use of employer's staff amenities
- where an employee is required to live away from their usual place of residence to perform duties relating to their employment, any accommodation provided
- compassionate travel
- fly-in fly-out arrangements where the work is performed in a remote area (eg. on an oil rig)
- costs incurred in respect of travel for employees and future employees in relation to employment interviews and selection tests
- outplacement services provided by the employers to employees eg. guidance in seeking new employment
- certain long service leave and safety awards
- certain emergency assistance given in respect of health care
- where trainees are engaged under an Australian traineeship system, an exemption is provided in respect of food, drink and accommodation
- food and drink provided for non live-in domestic employees where the employer is a natural person or a religious institution
- food, drink and accommodation provided for live-in help for elderly or disadvantaged persons. There is also an exemption where the person is employed by a religious institution.

Employee share plans

Employee share plans in relation to both section 26AAC and Division 13A are exempt from FBT. In addition, under Division 13A, the first \$1,000 of the discount received will be exempt from tax in the hands of the employee, if certain conditions are satisfied.

Childcare And Recreational Facilities

The provision of childcare on the employer's premises is an exempt residual fringe benefit. Recreational facilities are also exempt when they are on the employer's premises.

External childcare facility priority access fee is an exempt fringe benefit. However if the employer pays or reimburses the childcare fees, it will be subject to fringe benefits tax.

Relocation Benefits

There are a number of relocation benefits that can be provided, which will be exempt from fringe benefits tax. For example, relocation transport travel, removal and storage expenses for both the employee and his/her family are exempt benefits.

Costs associated with the sale or purchase of a house are exempt, as well as hotel accommodation and meals in limited circumstances.

Exempt Employers

The following types of employers are not subject to FBT:

- Religious institutions, where the benefits are provided to religious practitioners engaged in pastoral duties
- International bodies
- Diplomatic consular immunities.

\$500 Exemption

Concessional valuation rules apply to in-house property, residual and expense payment fringe benefits. Broadly the first \$500 of the aggregate of the taxable values of certain 'in-house' fringe benefits given to an employee each year are exempt from fringe benefits tax.

From 1 April 2007, the exemption will increase from \$500 to \$1,000.

Minor Benefits

Where a benefit is provided that is infrequent and irregular and the taxable value does not exceed \$100 (inc. GST), it will be exempt from fringe benefits tax. For a benefit to be considered minor, attention must be given to:

- the frequency and regularity with which similar or identical benefits are provided
- the sum of the value of such benefits provided in the year
- the circumstances in which the benefits are provided, ie whether they are provided as a reward for services.

From 1 April 2007, the minor benefits threshold will increase from \$100 to \$300.

FBT Checklist

This FBT Checklist has been prepared by Moore Stephens for the Board Public Practice Committee of CPA Australia.

Information contained herein is provided on the understanding that it neither represents nor is intended to be advice or that CPA Australia or the author is engaged in rendering legal or professional advice. Whilst every care has been taken in its preparation, no person should act specifically on the basis of the material contained herein. If expert assistance is required, appropriate professional advice should be obtained.

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About The Author

Moore Stephens authors a number of technical publications and products that are specifically aimed at assisting accountants in taxation compliance and planning.

Of specific interest to accountants at this time of year is:

The FBT Compliance Toolkit

This includes a user guide and cd that has the following features;

- Calculation of taxable value
- Reportable fringe benefits report automatically compiled
- Automatic rollover of prior year details
- Simple to use
- Multiple worksheets available for each benefit
- Helpline facility for installation and use
- Comprehensive help screens
- Full user's guide
- Summary table of total benefits for FBT Return
- Now in easy-to-use Excel platform
- Suitable for CD Rom drive, Windows 95 and above

The cost is \$541.00 (inc GST). The FBT Compliance Toolkit can be obtained from the author by contacting them on (03) 9614 4444 or the publisher on (03) 9205 0600.

Summary of Entertainment Deductibility for Taxable Employers

| Location | Nature of Expenditure | Attendee | Tax Deductible | FBT Payable |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------|-----------------------------|----------------|-------------|
| Employer premises but not in an "in-house dining facility". | Non-entertainment * | Employee | Yes | No** |
| | | Client | Yes | No** |
| | Entertainment | Employee | No** | No** |
| | | Client | No | No |
| Employer premises in an "in house dining facility"—an area set aside wholly or principally for provision of food and drink to employees on a working day, such as a cafeteria. | Non-entertainment * | Employee | Yes | No** |
| | | Client | Yes | No |
| | Entertainment | Employee | Yes | No** |
| | | Client | Yes | No |
| Non-employer premises such as a restaurant or reception centre. | Non-entertainment (meals taken whilst travelling) | Employee | Yes | No |
| | | Employee | Yes | Yes |
| | Entertainment | Client | No | No |
| | Entertainment | Employee (Social occasions) | Yes | Yes |

* Non-entertainment includes morning and afternoon teas, light meals but excludes alcohol and elaborate meals.

** 'No' only applies if entertainment consists of food and drink provided on working days to employees; otherwise read as 'Yes'.

The amount of expenditure relating to the client will only be deductible to the employer where the amount of \$30 per client is added back to the employer's income.

Fringe Benefits Tax Internal and External Entertainment

| Fringe Benefits Tax Year Ending 31 March | | | | | | | | | | | | | | | Name of Client: | | | | |
|------------------------------------------|-------|--------------------|--------------------|--------------------------|--------------------|-----------------|------------------------------|--------------------------|---------------------|-------------------|-----------------|-----------------|-----------------|-----------------|-----------------|--|--|--|--|
| 1 | 2 | 3 | 4 | 5 | 6 | Do Not Complete | Do Not Complete | Do Not Complete | Do Not Complete | Do Not Complete | Do Not Complete | Do Not Complete | Do Not Complete | Do Not Complete | Do Not Complete | | | | |
| Date | Venue | * Cost of Function | # No. of Employees | No. of Clients/Customers | Total No. Attended | Cost Per Head | Non-Deductible Entertainment | Deductible Entertainment | Total Entertainment | FBT Taxable Value | | | | | | | | | |
| | | \$ c | | | | \$ c | \$ c | \$ c | \$ c | \$ c | | | | | | | | | |
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* Includes Travel, Meals and Entertainment # Includes Family Members
NOTES: 1) Only complete COLUMNS 1-6 if you are still utilising the cost per head basis. This is a much simpler basis than the actual cost basis and involves less record keeping (eg. meals cost \$180 and 3 people attended, therefore cost per person is \$60). Do not complete COLUMN 7 onwards.
2) If Christmas Party mark venue with XMAS.