

TAX BULLETIN

An update publication for our clients

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2011 BUDGET - FRINGE BENEFITS TAX CHANGES

Background

In the recent Federal Budget the Government announced significant changes to Fringe Benefits Tax ('FBT'), specifically the method of valuing Car Benefits under the Statutory Formula Method. Broadly, it was proposed that the statutory percentages would be amended such that a 20% rate would apply to all cars valued under this method, regardless of the kilometres travelled.

The justification given for this change was to remove the incentive for employees "to drive their vehicle further than they need to, in order to obtain a larger tax concession". This is based on the belief [mistaken] that employees drive their cars additional kilometres merely to ensure that they fall within a lower statutory percentage. Whilst this practice may occur in limited cases, it is our experience that it is very much at the margin and is more of an urban myth, than reality. Indeed, often the cost associated with running a car for the additional kilometres outweighs the potential FBT savings.

The businesses that will be most impacted by the proposed changes will be those that have a fleet of work-horse vehicles and use the Statutory Formula Method for valuing their car benefits, knowing that the significant business travel will result in the use of the lower statutory percentages. The changes will either cause a significant increase in their FBT or an increased administrative burden in the need to keep log books and tracks expenses for individual cars.

Proposed changes

It is proposed that this change will be introduced on a transitional basis. Accordingly, it will apply to all car benefits provided after 7.30 pm 10 May 2011, except where a financially binding commitment to provide the car existed prior to that time. Furthermore, for those cars that are brought within the amendments, the 20% statutory percentage will be phased in over four years.

The relevant statutory percentages that will apply to cars brought within the amendments will be as follows:

	2012 FBT Yr	2013 FBT Yr	2014 FBT Yr	2015 FBT Yr
0 – 24,999 kms	20%	20%	20%	20%
25,000 – 40,000 kms	14%	17%	20%	20%
40,001 + kms	10%	13%	17%	20%

The existing statutory percentages will continue to apply to cars that are provided under a commitment which existed prior to 7.30 pm 10 May 2011. However, if a car which was provided under such a commitment is refinanced or moved to a new employer, it will then be brought within the new provisions. If, as a result of a change in commitment the new rules begin to apply to an existing car part way through an FBT year, the changes will commence from the start of the next FBT year.

Whilst these changes are only proposals at this stage, the Bill to introduce the changes is currently before Parliament. Accordingly, it would be prudent for all businesses to consider the implications of these changes and plan to mitigate any adverse impact.

Effect of the changes

Increased FBT

The main impact is going to be a substantial increase in FBT for those cars that ordinarily travel 25,000 kilometres or more in a year. Broadly, the ultimate impact for this type of car will be an increase in FBT of approximately two or three times what it would otherwise have been. Generally, cars that would have fallen under the previous 7% or 11% statutory percentages would have a reasonable level of business use.

Accordingly, consideration should be given to requiring all employees who drive cars, or selected groups of employees, to commence to keep log books for a minimum twelve week period to track business use. The log book would enable the business to potentially use the operating cost (log book) method of valuing the car benefit and this may produce a significant saving in FBT. Whilst it is acknowledged that the requirement to complete log books adds a compliance burden on businesses, any associated costs may be more than offset by a reduction in FBT.

Alternatively, when an existing car is due to be replaced (with the new car coming within the new statutory percentages) consideration could be given to not replacing the car but instead requiring the employees to provide their own vehicles and paying them car allowances to compensate for the business use of their cars. This option would remove the compliance and substantiation burden from the business, and put it on to the employees. There are a number of issues to be considered in this situation, including the potential financial impact on the employees, the desire for cars to present an appropriate 'business image' etc. FBT should not be the sole consideration.

Salary packaging

There is a potential two edged impact on salary packaging.

Firstly, for those employees who package a car and, whilst driving considerable kilometres (ie in excess of 25,000 kms pa), use the car primarily for private purposes, there will be a need to revisit salary packages. Whilst there will be no immediate impact if they do not enter into a new commitment regarding a pre 10 May car, if such a car is re-financed or replaced there will be a considerable increase in the FBT payable on that car. The absence of any material business travel would mean that the operating cost method would not provide any significant savings. Accordingly, once the new car arrangement is put in place it may no longer be tax effective to package the car.

Alternatively, there may now be a greater opportunity for some employees to those employees who typically drive only a limited number of kilometres in a year to salary package a car. Previously, where a car travelled less than 15,000 kilometres in a year the statutory percentage that applied to that car was 26%. This resulted in many employees in this category not packaging a car as it was not economic to do so. However, with a reduction in this rate to 20%, it may now be tax effective for such employees to consider salary packaging a car.

Further Information

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