

Fringe Benefits Tax Changes in 2012

New Calculations for Car Benefits

The 2011/12 Federal Budget and recently revised legislation have delivered a new era for Fringe Benefits Tax (FBT) on motor vehicles. We encourage all employers to put their car benefits under the microscope in the weeks leading up to this year's FBT season to ensure that they and their employees are getting the most tax effective outcome for valuing their benefits.

Calculations of the FBT value of a car benefit changed with the Tax Laws Amendment (2011 Measures No. 5) Act No. 62 of 2011 which was passed in June of last year. This bill is, in essence, the implementation of the Henry Tax Review recommendation to change the current statutory rates for valuing car fringe benefits to a single statutory rate of 20%, regardless of the number of kilometres travelled.

Under the former rules, a car benefit was valued under the statutory method (Stat Method) by multiplying the base value of the car by the statutory rate which was determined based on the number of kilometres the car travelled during the year (and pro-rated if the car was not provided for the full year).

The new legislation provides a transition period to the 20% flat rate over four years.

Statutory rate (x cost of car to determine person's car fringe benefit)					
Distance travelled during FBT year (1 April - 31 March)	Existing contracts	New contracts from 10 May 2011	New contracts from 1 April 2012	New contracts from 1 April 2013	New contracts from 1 April 2014
0 - 15,000km	26%	20%	20%	20%	20%
15,000 - 24,999km	20%	20%	20%	20%	20%
25,000km - 40,000km	11%	14%	17%	20%	20%
More than 40,000km	7%	10%	13%	17%	20%

Warning – Changes to contracts

It is important to note that these transitional rules apply to new contracts as opposed to new vehicles. Employers need to be aware that if they refinance a vehicle, or alter the terms of an existing contract after 10 May 2011, this will constitute a new contract and trigger the transitional rules. The same will also apply to employees who alter their novated lease by way of refinancing, altering an existing contract, altering the number of kilometres to be travelled or by changing employers.

Impact of new rules

The new Stat Method rules will provide many employers with a better FBT outcome, particularly if employees are currently travelling less than 25,000kms, as they will benefit from the reduction in rate from 26% to 20%.

Indirect benefits of the new rules also include:

- Reconsidering what cars should be held in the business and subject to FBT, with a move towards lower cost cars for those whose statutory rate will be increasing from 7-11% to 20%.
- A move towards keeping higher cost, luxury vehicles out of business structures and back into personal names where they will not be subject to FBT.
- Employees under novated lease schemes will be less inclined to incur extra kilometres and extra fuel costs before year end in order to move into a lower FBT bracket.
- Employers will be more inclined to hold on to cars for longer periods rather than upgrading, in order to utilise the 1/3 reduction in cost base if the car is held for more than 4 full FBT years.
- Reconsidering new vehicle purchases for overall cost, including assessment of whether diesel engines might be beneficial for vehicle longevity and fuel costs.

There will be some downside to the new rules which could indirectly affect an employees ability to access certain concessional and government payments. Any resulting increases in FBT may increase the amount of Reportable Fringe Benefits (RFBs) on an employee's payment summary which is included in their tax return for the purposes of assessing whether they can access particular tax concessions. Some of the areas that might be impacted for employees include:

- Family Tax Benefit Parts A & B
- Child Care Benefits
- Medicare Levy Surcharge
- Government Super Co-Contribution and Concessional Super Contributions
- Senior Australian and Mature Workers Tax Offsets
- HELP and HECS debts; and
- Employee Share Scheme Upfront Tax Concessions

With such widespread implications, employers should be encouraged to discuss any car benefit arrangements they have with their employees and ensure that a fair and equitable arrangement can be struck.

Time to review your options?

With the movement towards a flat rate for the Stat Method, many employers may want to consider whether this method for valuing their car benefits still gives them the best outcome.

For employers with car benefits exceeding the 25,000km threshold, the use of the Operating Cost Method may result in a low value for FBT, particularly if the business use percentage is high.

Employer's can elect to use either method on a per car, per year basis, which gives you the flexibility to change methods from year to year in order to get the lowest FBT.

See the table on the next page for comparison of the old versus the new legislation.

Comparison of Old and New Stat Method (\$70,000 vehicle travelling over 40,000kms)													
Old Legislation (still applies to existing contracts pre 10 May 2011)	New Legislation (using 2014 maximum transitional rate)												
$\$70,000 \times 7\% = \$4,900$ taxable value	$\$70,000 \times 20\% = \$14,000$ taxable value												
Using the Operating Cost Method													
<p style="text-align: center;">Car Expenses:</p> <table style="width: 100%; border-collapse: collapse;"> <tr><td style="padding-left: 20px;">Fuel (\$100/wk)</td><td style="text-align: right;">\$5,200</td></tr> <tr><td style="padding-left: 20px;">Repairs</td><td style="text-align: right;">\$1,000</td></tr> <tr><td style="padding-left: 20px;">Insurance</td><td style="text-align: right;">\$2,000</td></tr> <tr><td style="padding-left: 20px;">Depreciation</td><td style="text-align: right;">\$17,500</td></tr> <tr><td style="padding-left: 20px;">Interest (7.80%)</td><td style="text-align: right; border-bottom: 1px solid black;">\$5,460</td></tr> <tr><td style="padding-left: 20px;">Total</td><td style="text-align: right;">\$31,160</td></tr> </table>	Fuel (\$100/wk)	\$5,200	Repairs	\$1,000	Insurance	\$2,000	Depreciation	\$17,500	Interest (7.80%)	\$5,460	Total	\$31,160	<p>Business Use 90%</p> <p>$\\$31,160 \times (100\% - 90\%)$ = \$3,116 Taxable Value</p>
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Why continue to use Stat Method?

Based on the above examples, you might wonder why an employer would continue to use the Stat Method into the future but, in some cases, the Stat Method is still going to be the most tax effective way of valuing certain car benefits.

From a purely administrative point of view, the Stat Method is easy to calculate and administer as it negates the need to maintain detailed records of odometer readings and running cost expenditure, as well as calculations for deemed interest and depreciation at the prevailing rates as determined by the ATO each year. It's also much easier to administer any arrangements with employees for making fringe benefit contributions as a way of reducing the employer's FBT liability.

Further, any luxury cars held by the employer or cars salary packaged by employees might not change in their FBT treatment. As is often the case, such cars are not driven excessive kilometres and, as such, would have been subject to the highest rate (26%). Under the new rules, such cars will now be capped at 20%, so a \$100,000 car will benefit from a reduction in FBT of \$2,790.

Early Adoption

If you're keen to review your current car benefit arrangements, the transitional rules can be bypassed and there is the option to adopt and use the 20% flat rate from 2012. The only restriction to this early adoption is that you must obtain consent from any employee/s who would be worse off as a result of the employer choosing to adopt the flat rate. Such elections are not required in writing but will be implied from the lodgement of the employer's FBT return.

For more advice on how the new FBT rules may impact you and your employees, please contact your McLean Delmo partner or call 9018 4666.