Fringe Benefits Tax (FBT) – What is it?

What is a fringe benefit?

A fringe benefit is an advantage or a compensation provided to an employee or their family or associates which is beyond the normal or regular benefit of the employee being paid salary or wages for their work.

Under the FBT legislation a benefit is defined very broadly and can include everything from a cup of coffee to a weekend away, the use of a motor vehicle, the provision of accommodation, the provision of or payment for books and periodicals or having memberships and subscriptions paid.

What is fringe benefits tax?

Fringe benefits tax (FBT) is a tax paid by the University on a fringe benefit provided by the University to its employees or their family or associates.

FBT is levied using various benefit valuation formula depending on the type of benefit provided, in an attempt to equate the tax to be paid to the equivalent income tax which would have been levied on the benefit if that benefit had been paid as salaries and wages.

Who pays the tax?

The University pays the tax, the employee who received the benefit does not pay the tax.

The tax is paid to the Australian Taxation Office (ATO).

The tax paid by the University is then posted to the accounts of the University cost centre which caused the tax to be incurred.

What are Reportable Benefits?

Although the University pays the FBT there can be an indirect impact on the employee who received the fringe benefit.

Where the combined value of all fringe benefits provided to an employee in one financial year is greater than $2,000.00 there is a requirement for the grossed-up value of the benefits to be shown on the employees annual Payment Summary (Group Certificate).

This reporting requirement excludes some benefits, such as exempt benefits and meal entertainment benefits.

While these reportable benefits are not taxed in the employee’s hands, the value is used for determining the Medicare levy surcharge and other income-tested government benefits, such as child support, HECS contribution threshold, etc.

What is the effect of fringe benefits tax on the University?

Where FBT applies to a benefit, unless there is a concessional tax treatment specified in the FBT Act for the benefit, such as the Statutory Formula method with Motor Vehicles, the tax will effectively double the cost to the University of providing the benefit, that is, the amount of FBT to be paid will be approximately the same value as the cost of providing the benefit.

As a result of this budget holders need to be aware of any FBT implications and its cost.

Benefits provided by third party

It is not necessary for the University to directly provide the benefit to the employee for FBT to apply. A benefit provided by a third party and paid for or arranged by the University or arising from the employee’s employment with the University will also attract FBT.

Otherwise deductible benefits

In relation to some benefits, for example expense payment benefits, and property benefits - where an employee is able to demonstrate that they could have claimed a tax deduction themselves had they personally paid the expense, the employee is able to complete an “Otherwise Deductible Declaration” and have the benefit taxable value reduced to nil.

The Otherwise Deductible rule does not apply to all benefits universally; meal entertainment and motor car benefits are two types of benefits for which a Declaration cannot be used.

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Some benefits are exempt

There are a number of benefits which are exempt from FBT, such as salary sacrificed superannuation contributions, inwards staff relocation costs, the supply of a mobile telephone hand-set, the supply of a lap-top computer, the supply of a briefcase and the supply electronic personal diaries, where these benefits are used primarily for business.

Calculating the tax

The FBT legislation provides specific valuation methods for determining the taxable value of each type of benefit provided; as a result, the particular method used for calculating the tax for one type of benefit may not necessarily apply to another type of benefit.

For example, the method used for motor cars and wagons is different to that for vans and utilities.

To calculate FBT it is necessary to:

- Determine the value of the benefit using the various ATO rules for the various benefits
- Reduce the value of the benefit by any cash contribution made by the employee
- Reduce the benefit value by any otherwise deductible amount – a declaration must be made by the employee for this to occur
- Gross-up the value of the benefit. (Grossing up a benefit calculates what the value of the benefit would have been in pre income tax dollars assuming the recipient pays the top marginal rate, the amount of gross-up varies depending upon whether the benefit provided included Australian GST or not).
- The tax is then levied on the grossed-up value.
- The FBT tax rate is:
    - For the FBT year ending 31 March 2014 46.5%
    - For the FBT year ending 31 March 2015 47.0%
    - For the FBT year ending 31 March 2016 49.0%
    - For the FBT year ending 31 March 2017 49.0%
    - For the FBT year ending 31 March 2018 47.0%

How much to budget for FBT?

As a guide to budgeting for what amount of FBT liability will be incurred on a fringe benefit, a good guide is that the FBT liability will be 100% of the cost of providing the benefit.