

Fringe Benefits Tax

A car fringe benefit commonly arises when an employer makes a car they own or lease (including a novated lease) available for the private use of an employee.

If you conduct your business through a company or trust, you may be an employee of the company or a trust.

A car is made available for private use by an employee on any day the car:

- is used for private purposes by the employee or associate; or
- is not at your premises, and the employee is permitted to use it for private purposes; or
- is garaged at their place of residence, regardless of whether they have permission to use it privately.

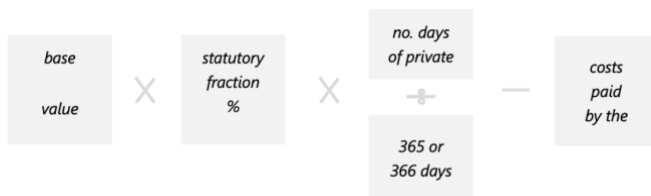
Calculating the taxable value

You can calculate the taxable value of a car fringe benefit using either the **statutory formula method** or **operating cost** method.

STATUTORY FORMULA METHOD

The **taxable value** is calculated by applying a statutory formula percentage to the base value cost of the car at the date of purchase or lease.

Your liability is reduced by the number of days the car was not available for private use, and any employee contributions made towards the running and maintenance costs of the car from their after-tax salary (commonly known as unreimbursed car expenses).



Base Value: If you've owned the car for less than 4 years when the FBT year began, the base value is the original cost price of the car, or $\frac{2}{3}$ of the cost price if owned for more than 4 full years. A car first owned prior to 1 April 2020 (and on or after 1 April 2019) will be eligible to the $\frac{2}{3}$ base value.

Cost price: The original purchase price including GST and luxury car tax but excluding, stamp duty, registration, acquisition costs such as delivery and non-business accessories like paint, fabric and rust protection or window tinting.

Statutory Fractions: From 1 April 2014, there's been a flat rate of 20% applied regardless of how many km's were travelled in the FBT year, except where there is a pre-existing commitment in place before 7:30pm, 10 May 2011.

OPERATING COST METHOD

The **taxable value** is based on the private usage proportion of the total costs of either owning or leasing and operating a car during the FBT year less any employee contributions.

Logbooks: A logbook must be maintained for a continuous 12-week period to represent the use for the full FBT year and to determine the applicable business percentage of a car. Each logbook you keep is valid for five years, but you are required to start a new logbook at any time if the pattern of use has changed more than 10%.

An employer can use the operating cost method for a year where a logbook hasn't been maintained, however the employer must estimate the business use for that year.

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What is a car fringe benefit?

Private use: Generally, any use of the car that is not for income-producing purposes such as travel to and from work is normally private use, even where the employee undertakes minor errands like collecting the mail.

Employee contribution: Any unreimbursed car expenses incurred, or after-tax contribution made by the employee can reduce the taxable value of a car fringe benefit under the operating cost method, as illustrated.

Exempt car benefits

WORK RELATED TRAVEL IN COMMERCIAL CARS

A motor vehicle benefit will be exempt where the vehicle is a taxi, panel van, utility or other road vehicle designed to carry a load, other than passengers of less than one tonne, and the employee's private use is limited to incidental or minor. The benefit of these vehicles is that travel between home and work is considered work-related.

CARS USED FOR EMERGENCY SERVICES

Cars used for emergency services which are garaged or kept at or near an employee's residence are exempt car benefits, where the car used is a police, ambulance or firefighting services vehicle; is fitted with flashing warning lights and a siren and has exterior markings which indicate its use.

CARS SUPPLIED BY PERSONAL ENTITIES

A personal service entity is unable to deduct car expenses from more than one car used by an individual.

Want to know more?

The ATO has signalled that there will be an increased focus on FBT this year, so if you would like to limit the ATO's ability to retrospectively launch an audit on your business, contact Collins Hume today on 02 6686 3000.

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