



THE UNIVERSITY
of ADELAIDE

Legal Compliance Education and Awareness

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Fringe Benefits Tax Act 1986

(Commonwealth)

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What is Fringe Benefits Tax?

- Fringe Benefits Tax (FBT) is a tax payable by employers for benefits paid to an employee, or an employee's associate (eg. spouse or children), in place of salary or wages
- FBT is separate from income tax & is calculated on the taxable value of the fringe benefits provided
- As of June 2012, the FBT Rate is 46.5% which is equal to the top income tax marginal rate plus the Medicare levy (i.e. the rate of FBT can vary from year to year)

What is a fringe benefit?

- A fringe benefit is a personal benefit (or 'perk') provided to an employee by an employer
- Benefits include rights, privileges & services in a different form to salary or wages

Examples:

- entertainment for staff by way of food, drink or recreation
 - a company car & associated expenses
 - health insurance
 - reimbursement of non tax deductible expenses
- Treatment of the benefit will be the same whether it is received directly by the employee or by an associate of the employee, such as a spouse or child

What is a NOT a fringe benefit?

- Payments of salary or wages
- Shares purchased under approved employee share acquisition schemes
- Employer contributions to superannuation funds
- Employment termination payments (for example, a company car given or sold to your employee on termination)

How does the Act apply to the University?

- The University is required to pay FBT because it provides or arranges fringe benefits to its employees
 - An employee can be a current, future or former employee
 - Generally, benefits provided to students, volunteers & contractors don't attract FBT
- Examples of fringe benefits include:
 - Business lunches
 - Staff & Alumni functions
 - Motor vehicle & associated expenses
 - Payment/Reimbursement of HECS/HELP fees
- The University is registered for FBT with the Australian Tax Office (ATO)

How do you determine if FBT applies?

- You must determine whether a benefit has actually been received
- You must consider who is receiving the benefit
- FBT is not black & white
- A function where sandwiches & juice is served to University staff is not likely to be subject to FBT
- The same function where alcohol is also provided is likely to be subject to FBT

How do you calculate FBT?

- The rate of FBT can vary from year to year as the rate is equal to the top marginal rate plus Medicare levy
- To calculate FBT you need to know the **taxable value** of the fringe benefit - this will change depending on the type of benefit provided
- There are also exemptions available
- Once the taxable value of the fringe benefit is calculated, it is 'grossed-up' to increase it to the approximate value the employee would have had to receive before tax to acquire the benefit
- The gross up factor is 2.0647 for benefits where GST applies & 1.8692 for GST free benefits
- The tax rate is then applied to arrive at the employer's FBT liability

How do you calculate FBT? (cont.)

For Example:

- A benefit is provided with a value of \$110 GST inclusive
- The taxable value is $\$110 \times 2.0647$ (gross up factor)
= \$227.12
- The FBT on this benefit is therefore 46.5% (FBT rate) $\times 227.12$
= \$105.61
- It is important to note that if a benefit is subject to FBT, the cost to the University (and the cost centre) will almost double (unless the private component is reimbursed)

Items exempt from FBT

- Most minor benefits valued at less than \$300 incurred infrequently & irregularly, such as:
 - Gifts to staff
 - A one-off weekend getaway voucher given to an employee in recognition of their achievement
- Employee relocation expenses
- On-site childcare
- Parking on University owned/leased premises
- Superannuation contributions
- Certain work-related items such as:
 - protective clothing
 - tools of trade
 - briefcases
 - mobile phones, if main used for work purposes
 - laptops & similar portable electronic devices, if mainly used for work purposes

When do you pay FBT?

- FBT is paid by the University on most benefits, such as meals & entertainment
- The university must calculate its FBT liability for the FBT year (1 April to 31 March) & lodge the FBT return by 21 May
- Individual fringe benefits (over the amount of \$2,000) are reported on the employees payment summary

FBT record keeping requirements

- The University must keep records that are adequate to enable their fringe benefits tax (FBT) liability to be assessed
 - **Examples:**
 - List of attendees (employee & non-employee) at a University function
 - Logbooks for University owned cars
 - Travel diary for University travel overseas
 - Receipts or transaction records
- Electronic records (including encrypted records) are subject to the same record keeping requirements as paper records
- Records must be kept for five years from the date they are prepared, obtained or the transactions completed, & in a form that tax officers can access & understand in order to determine an employers tax liability

Calculating FBT – University Travel

- The University spends millions of dollars a year on travel & accommodation
- If travel is not carefully managed & recorded, the FBT expense can be very high
- When the University pays for flights, meals & accommodation, or reimburses a staff member for that expense, the University has provided a fringe benefit & FBT is payable on that benefit
- The FBT on these benefits can be reduced to NIL if the travel was undertaken for University purposes & private travel time was only incidental & a travel diary is provided listing the days and the activities conducted
- Failure to keep an accurate travel diary results in the entire trip being subject to FBT
- A travel diary must be kept:
 - for all overseas travel
 - if travel within Australia exceeds 5 days

Calculating FBT – Entertainment

- For the purposes of FBT calculation, the definition of “entertainment” is quite broad
- When determining whether FBT applies, consider the following questions:

Question	YES	NO
<i>Why was the meal provided?</i>	To entertain	Mere substance
<i>What was provided</i>	3 course meal with alcohol	Light teas, biscuits and finger food
<i>When was it provided?</i>	At dinner or on a weekend	During work hours
<i>Where was it provided?</i>	Off-campus or through an external vendor	On campus (eg: Staff Club)
<i>Whom was it provided to?</i>	Staff and family	Non-staff, volunteers or contractors

Calculating FBT – Entertainment (cont.)

- Examples

YES – FBT would apply	NO – FBT would not apply
Business lunches or coffee meetings off-campus	Morning or afternoon tea on campus
Social function eg. Divisional Christmas Party	Working lunches consumed on campus
Melbourne Cup luncheon (on or off campus)	Training sessions with refreshments on campus
Theatre tickets	
Team bonding activities, such as a Wine tour	

What happens if I don't comply?

University Consequences:

- If an audit of the University's financial records determine that FBT has been under-paid, the University will be subject to penalty payments & general interest charges
- Incorrect coding on the T & E system (such as treatment of a student as an associate) can sometimes mean that FBT is over-paid, which is wasteful use of the University's resources

Individual Consequences:

- If an employee has reportable fringe benefits, it must be recorded on their PAYG Payment summary
- Reportable fringe benefits can affect the calculation of gross wages for (among others) HECS/HELP repayment, Family Tax benefit payments & Child Support payments etc
- If an incorrect amount is reported, the employee might be missing out on some government benefits or may be overpaying other liabilities

Tips on managing FBT costs appropriately: All Staff

Staff Travel

- Accurately assess the number of private & business days when travelling
- Ensure that any private travel is 'incidental' to the business travel
 - If the private travel is more than 'incidental' to the business travel, FBT will apply to half of the airfare, so only half of the airfare should be applied for & approved by the University, & the other half paid by the employee to eliminate the FBT liability
- Ensure that a Travel diary is prepared in advance of travel & any amendments confirmed on return
- Ensure that you reimburse the University for private travel where applicable

Tips on managing FBT costs appropriately: Finance Staff

- Accurately calculate how much FBT your area is required to pay
 - If you are unsure if FBT needs to be applied, email henrietta.shepherd@adelaide.edu.au

- Understand which benefits are exempt from FBT
- Keep all necessary FBT records for 5 years

Examples:

- List of attendees at a University function
- Logbooks for University owned cars
- Travel diary
- Receipts or transaction records

**If a transaction is coded correctly (Accounts 2786 & 2788),
FBT will be automatically calculated**

Additional Resources

- [Henrietta Shepherd](#), Senior Taxation Accountant
- [Fringe Benefits Tax Act 1986 \(Cth\)](#)
- Australian Taxation Office Website
 - www.ato.gov.au



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Disclaimer

The content of this material is intended only to provide a summary & general overview of the *Fringe Benefits Tax Act* as it applies to the University of Adelaide.

It is not intended to be comprehensive nor does it constitute legal advice.

Please contact *Henrietta Shepherd* if you are unsure of your compliance obligations under the Act.