Fringe Benefits Tax Act 1986

(Commonwealth)
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 (e.g., 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 x 2.0647 (gross up factor) = $227.12

- The FBT on this benefit is therefore 46.5% (FBT rate) x 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
Fringe Benefits Tax Act 1986 (Cth)

**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:

<table>
<thead>
<tr>
<th>Question</th>
<th>YES</th>
<th>NO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Why was the meal provided?</td>
<td>To entertain</td>
<td>Mere substance</td>
</tr>
<tr>
<td>What was provided</td>
<td>3 course meal with alcohol</td>
<td>Light teas, biscuits and finger food</td>
</tr>
<tr>
<td>When was it provided?</td>
<td>At dinner or on a weekend</td>
<td>During work hours</td>
</tr>
<tr>
<td>Where was it provided?</td>
<td>Off-campus or through an</td>
<td>On campus (e.g.: Staff Club)</td>
</tr>
<tr>
<td></td>
<td>external vendor</td>
<td></td>
</tr>
<tr>
<td>Whom was it provided to?</td>
<td>Staff and family</td>
<td>Non-staff, volunteers or contractors</td>
</tr>
</tbody>
</table>
Calculating FBT – Entertainment (cont.)

- Examples

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

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