

Practice Update



Car fringe benefits

Remember, a fringe benefit may be provided by another person on behalf of an employer. It may also be provided to another person on behalf of an employee (for example, a relative).

7.1 What is a car fringe benefit?

A car fringe benefit most commonly arises where you (the employer) make a car you 'hold' available for the private use of an employee (or the car is treated as being available). A car you hold generally means a car you own or lease.

The following types of vehicles (including four-wheel drive vehicles) are cars:

- motor cars, station wagons, panel vans and utilities (excluding panel vans and utilities designed to carry a load of one tonne or more)
- all other goods-carrying vehicles designed to carry less than one tonne
- all other passenger-carrying vehicles designed to carry fewer than nine occupants.

You make a car available for private use by an employee on any day that either:

- the car is actually used for private purposes by the employee, or
- the car is available for the private use of the employee.

A car is treated as being available for private use by an employee on any day that either:

- the car is not at your premises, and the employee is allowed to use it for private purposes, or
- the car is garaged at the employee's home.

A car that is garaged at an employee's home is treated as being available for the private use of the employee regardless of whether they have permission to use it for private purposes. Similarly, where the place of employment and residence are the same, the car is

taken to be available for the private use of the employee.

As a general rule, travel to and from work is private use of a vehicle.

Where a car is in a workshop for extensive repairs (for example, following a motor vehicle accident) it is not available for private use of the employee. However, a car is considered to be available for private use where it is in the workshop for routine servicing or maintenance.

Private use of a motor vehicle that is not a car may give rise to a residual fringe benefit - for more information, refer to section **18.6** of Residual fringe benefits.

If you hire a car for less than three months, you are not considered to 'hold' the car and it will not result in a car fringe benefit. However, if you make a rental car or taxi available for the private use of an employee, and the car is hired for less than three months, a residual fringe benefit may arise.

Special rule for emergency service cars

Home garaging for certain emergency service cars will not result in a car being treated as available for private use under the 'home garaging rule'. However, if the car is otherwise made available for private use, such as by actual private travel between work and home, a car fringe benefit may arise.

To qualify under the home garaging rule, at the time the emergency vehicle is garaged, it must be:

- used by an ambulance, police or fire fighting service
- have fitted exterior markings indicating such a use
- also be equipped with a flashing warning light and horn, bell or alarm.

7.2 Taxable value

You can calculate the taxable value of a car fringe benefit using either of the following methods:

- **Statutory formula method** - following the 2011 Budget, changes were made to the statutory formula method which has resulted in the old progressive statutory rates being replaced with a single statutory rate of 20% (subject to transitional rules), which applies regardless of kilometres travelled. This rate applies to all car fringe benefits after 7.30pm AEST on 10 May 2011, except where there is a 'pre-existing commitment' in place to provide the car (for a meaning of the term 'commitment' see section 7.4). The taxable value of the car fringe benefits is the statutory rate multiplied by the car's base value.
- **Operating cost method** - the taxable value of the car fringe benefit is a percentage of the total costs of operating the car during the fringe benefits tax (FBT) year. The percentage varies with the extent of actual private use. The lower the incidence of actual private use, the lower the taxable value.

7.3 Choosing the valuation method

You must use the statutory formula method unless you elect to use the operating cost method. You may elect to use the operating cost method for any or all of your cars, regardless of which method you used in a previous year. However, to use the operating cost method you must have kept adequate FBT records (for more information, see section 7.8).

You must decide to use the operating cost method no later than the day on which your FBT return is due to be lodged with us or, if you do not have to lodge a return, by 21 May.

You can choose whichever method yields the lowest taxable value. There is no need to notify us of the method chosen as your business records are sufficient evidence of this.

7.4 Statutory formula method

Use the following formula to calculate the taxable value of car fringe benefits under the statutory formula method:

$$\text{Taxable value} = \frac{(A \times B \times C)}{D} - E$$

Where:

- A = the base value of the car
- B = the applicable statutory percentage
- C = the number of days in the FBT year when the car was used or available for private use of employees
- D = the number of days in the FBT year
- E = the employee contribution.

Determining the base value of the car

Base value of a car you own

The base value of a car you own is:

- the original cost price you paid (excluding registration and stamp duty)
- the cost of any fitted non-business accessories
- dealer delivery charges.

All cost and charges include goods and services tax (GST) and luxury car tax where appropriate.

Non-business accessories are fitted accessories not required to meet the special needs of your business operations. An example of a business accessory is a fitted GPS in a salesman's car, while alloy wheels, rear spoilers and seat covers are non-business accessories. Any non-business accessories added after you purchase the car increase the base value of the car for the year in which they are added and for subsequent years.

Base value of a car you lease

Where the lease started when the lessor bought the car, the base value is the cost price to the lessor (including GST and luxury car tax). Any non-business accessories added after the lessor bought the car increase the base value of the car for the year in which they are added and for subsequent years.

Where the lessor acquired the car at some other time, the base value is the market value (including GST and luxury car tax) at the time you first held the car (that is, the amount a person could reasonably be expected to have paid to buy the car under an arm's length transaction).

Cars under a novated lease are subject to the same car fringe benefit valuation rules as other cars you lease (for more information, see section 7.7).

Cost price

Cost price is generally the expenditure incurred by you or the lessor for the acquisition or delivery of the car. Usually, this is the purchase price (GST included) that has been paid, although there may be arrangements in place which have an impact on the cost price.

For example, where an employee provides a trade-in or cash payment as part of the sale agreement, the cost price would be the purchase price minus the trade-in or cash payment. Fleet discounts and manufacturer rebates may also reduce the expenditure incurred on the acquisition of the car.

Alternatively, where an employee pays an amount directly to you, you will need to look at the terms of any agreements and contracts in place to determine whether this payment is an employee contribution or not.

An employee contribution does not reduce the cost price of the car.

For more information about the cost price of a car, refer to Taxation Ruling **TR 2011/3**.

Reducing the base value after four years

You do not reduce the base value of a car each year. However, you can reduce the base value of a car by one-third in the FBT year that starts after you have owned or leased the car for four years. That is, the reduction applies from 1 April after the fourth anniversary of the date on which you first owned or leased the car. The reduction applies only once for a particular car and you then use the reduced base value for subsequent years. The reduction does not apply to non-business accessories added after you acquired the car.

Example: Reducing the base value after four years

An employer purchases a car for \$30,000 (including GST) on 1 July 2003. The employer can reduce the

base value of the car by one-third (\$10,000) in the FBT year beginning 1 April 2008.

Safeguards

There are safeguards to make sure the true base value of a car is not artificially reduced by devices such as sale and lease-back or buy-back. The safeguards also apply where a leased car is acquired by the lessee on termination of the lease. Under the safeguards, the base value is determined at the time you or your associate first held the car and according to whether it was owned or leased at the time.

There are further safeguards to ensure a car that changes ownership at less than market value, or a car that is acquired at no cost (for example, a car donated to a charitable organisation) is priced appropriately. Generally, such a price is the market value of the car at the time of transfer.

Determining the statutory percentage

A flat statutory rate of 20% applies (subject to transitional rules), regardless of the distance travelled, to all car fringe benefits you provide after 7.30pm AEST on 10 May 2011 (except where there is a pre-existing commitment in place to provide a car).

The statutory percentages for car fringe benefits provided before 7.30pm AEST on 10 May 2011, or where you have a pre-existing commitment in place to provide the car after this time, are as follows:

| Total kilometres travelled during the year | Statutory percentage |
|--|----------------------|
| Less than 15,000 | 26 |
| 15,000 to 24,999 | 20 |
| 25,000 to 40,000 | 11 |
| More than 40,000 | 7 |

You can continue to use these statutory rates for all pre-existing commitments unless there is a change to that commitment.

Transitional arrangements and rates

The move to one statutory rate of 20% will be phased in over four years. There will be transitional arrangements that apply to any new commitments entered into from 10 May 2011 to 31 March 2015. Where there is a change to a pre-existing commitment these transitional arrangements will also apply. The following statutory rates should be used:

| | From | From | From | From |
|------------------|-------------|------------|------------|------------|
| | 10 May 2011 | 1 Apr 2012 | 1 Apr 2013 | 1 Apr 2014 |
| Less than 15,000 | 0.20 | 0.20 | 0.20 | 0.20 |
| 15,000 to 25,000 | 0.20 | 0.20 | 0.20 | 0.20 |
| 25,000 to 40,000 | 0.14 | 0.17 | 0.20 | 0.20 |
| More than 40,000 | 0.10 | 0.13 | 0.17 | 0.20 |

Skipping the transitional arrangements

For any new commitments entered into during this period, you can choose to skip the transitional arrangements and apply the 20% statutory rate; however, this choice is subject to certain conditions mentioned below.

You cannot skip the transitional arrangements where an employee would be worse off as a result of this choice. That is, the employee cannot be placed at a direct financial disadvantage as a result of this choice, unless you have obtained the consent of the employee.

For example, you cannot require an employee to bear the financial impact of skipping the transitional arrangements by charging the employee a higher salary packaging amount as a result of an increase in FBT payable merely to save on compliance costs, unless you have obtained the consent of the employee to do so.

The choice to skip the transitional arrangements is on a car-by-car basis.

You do not need to notify us of your choice, as your business records are sufficient evidence of this.

Meaning of the term commitment

A 'commitment' is entered into at the point there is a financially binding commitment to a transaction on one or more of the parties and it cannot be backed out of. The commitment needs to be one that relates to the application or availability of the car to an employee or associate.

For example, there are a number of steps involved where you negotiate with an employee and a salary packaging provider to put in place a novated lease arrangement in relation to a car. A commitment would generally be entered into, and would be financially binding, when you or the employee orders the car that is to be provided by way of a novated lease arrangement and there is a financial penalty if the order is cancelled.

The term 'pre-existing commitment' means a commitment to the application or availability of the car that was made before 7.30pm AEST on 10 May 2011.

Where you, or an employee or their associate, has committed to the car before 7.30pm AEST on 10 May 2011, but provision of the car fringe benefit does not take place until after 7.30pm AEST on 10 May 2011, the old statutory rules will apply.

Example: Commitment entered into before 7.30pm AEST 10 May 2011 but car delivery is delayed

During April 2011, Constance began discussions with her employer and a salary packaging provider about obtaining a car through a salary sacrifice arrangement.

On 2 May 2011, Constance agreed to a particular option put forward by the salary packaging provider and the car was ordered.

The car is scheduled for delivery on 1 August 2011, at which point she will sign documents with the leasing provider for the provision of the car.

As Constance entered into a commitment on 2 May 2011, the old statutory rules will apply.

Change to a pre-existing commitment - same employer

Alterations to a pre-existing commitment can result in the application of the new 20% flat rate (or transitional rate). Examples of such alterations include:

- refinancing the car
- alterations to existing lease contracts, such as changing the duration of an existing lease contract and changes to a lease to reflect a revised residual value
- where accessories (such as window tinting, DVD players, luggage racks or bull bars) are fitted to a leased car after the lease started, the lease is altered and lease payments are increased to reflect this change.

If changes such as these are made then, where you remain as the employer, you will only begin to apply the flat 20% rate (or applicable transitional rate) from the beginning of the next FBT.

Example: Change to a pre-existing commitment made part way through the FBT year - same employer

Blake entered into a novated lease arrangement with his employer in 2009. The original lease period expired in September 2011. The car travelled 32,000 kilometres in the 2011-12 FBT year and the annualised kilometres travelled in the 2012-13 FBT year will be 34,000. The use of the car is valued under the statutory formula method.

In August 2011, Blake decided to refinance the same car for another year and signed documents agreeing to extend the lease by 12 months. This would be considered to be a change to the pre-existing commitment and the new flat 20% rate (or transitional rate) can apply. However, the new rates will only begin to apply from the beginning of the next FBT year following the date of this changed commitment (that is, from 1 April 2012).

This is because a changed commitment to the car by the same employer began to apply part way through an FBT year in relation to a car that was available from 1 April 2011. The statutory rate of 0.11 (that is, the rate under the old rules) will apply for the entire 2011-12 FBT year.

For this car, the new statutory rates will begin to apply from 1 April 2012. Accordingly, for the FBT year starting on 1 April 2012, the transitional rate of 0.17 will apply.

Change of employer or change of car

FBT applies to you as an employer. Any change of the employer, even within the same group of companies, will constitute a new commitment to the application or availability of the car by the new employer. This means the statutory rate of 20% (or applicable transitional rate) will be used by the new employer immediately.

Likewise, any change of car (after 7.30pm AEST on 10 May 2011) will always be a new commitment to which the 20% flat rate (or applicable transitional rate) will apply immediately, even where the employer stays the same.

Example: Change in employer

Anna works for X Co and entered into a three year novated lease arrangement with her employer in January 2010. The car fringe benefits are valued by her employer using the statutory formula method.

On 12 November 2011, Y Co officially takes over X Co and Anna is now an employee of Y Co.

As Anna's employer has changed, car fringe benefits provided by the new employer from 12 November 2011 will come under the new statutory rates immediately.

Alterations that would not be considered to be changes to a pre-existing commitment

Any alterations that do not result in a change to the financially binding commitment to the application or availability of the car will not be considered to be changes to a pre-existing commitment and the old statutory rates can continue to be applied. Examples of alterations that would not be considered to be changes to a pre-existing commitment include:

- more or fewer kilometres travelled resulting in a change to the amount of FBT payable and subsequent payments by the employee to you under a salary packaging arrangement, but does not involve an amendment or change to the lease contract
- adjustments to salary packaging arrangements which alter post-tax employee contributions
- use of an employer's 'fleet car' by different employees (not involving any salary sacrifice arrangements).

Annualised kilometres

If you own or lease a car for part of an FBT year, you may need to work out how many kilometres the car would have travelled if you had owned or leased it for the whole year.

For example, where you acquire a car halfway through the year and the car travels 12,000 kilometres in the remaining 182 days of the year, this would give you an annual distance of 24,065 kilometres.

You can use the following formula to calculate an annualised figure if you use the old statutory rates or the transitional rates:

$$\frac{A \times B}{C}$$

C

Where:

- A = the number of whole kilometres travelled in the period during the year when you owned or leased the car
- B = the number of days in the FBT year
- C = the number of days in that period.

Determining the number of days available for private use

The statutory formula method is based on the number of days during the FBT year when the car is available for the employee's private use or is actually used by the employee for private purposes - for more information about private use, see section 7.1).

Determining the employee contribution

The amount that would otherwise be the taxable value of a car fringe benefit is reduced by the amount of any employee contribution.

An employee contribution may be an amount paid either:

- directly to you by the employee for use of the car - the employee contribution must be made from the employee's after-tax income and is included in your assessable income
- by the employee to a third party for some of the car's operating costs (for example, fuel) and these contributions are not included in your assessable income.

However, the employee must provide you with documentary evidence of the expenditure (for example, receipts or invoices). In the case of petrol and oil costs, a declaration from the employee is sufficient for this purpose and receipts are not required. The declaration must be in a form approved by the Commissioner. For the approved declaration, refer to *Declarations*.

An employee contribution (other than a contribution of services as an employee) is treated as consideration for a taxable supply for GST purposes. Therefore, you have to pay GST on the supply. You reduce the taxable value of the fringe benefit by the GST-inclusive amount of the employee contribution.

An employee contribution does not have any GST implications for you if either:

- the contribution is made through payment of an amount by the employee for some of the car's operating costs (for example, fuel)
- you are neither registered nor required to be registered for GST.

In certain circumstances, journal entries in your accounts can be an employee contribution.

Statutory formula method examples

Example: Calculation using the old statutory rates

An employer purchases a car for \$30,000 (including GST) on 1 August 2009 however, it was only available for private use by the employee for 182 days from 1 October 2009 and:

- the car's base value is \$30,000
- from 1 August 2009 to 31 March 2010 the car travelled 18,000 kilometres (the annualised kilometres for the full 2009-10 FBT year would be 27,037 (18,000/243 x 365), so the relevant statutory percentage is 11%)
- the employee pays fuel costs of \$1,000 and provides the employer with the necessary declaration.

The taxable value of the car fringe benefit provided during the year would be:

Taxable value = $(A \times B \times C) - E$

D

Where:

- A = the base value of the car
- B = the statutory percentage
- C = the number of days in the FBT year when the car was used or available for private use of employees
- D = the number of days in the FBT year (use 366 if a leap year)
- E = the employee contribution.

Taxable value = $\frac{(\$30,000 \times 11\% \times 182) - \$1,000}{365} = \$645.47$

Example: Annualised kilometres

From the period 1 April 2009 to 31 March 2010 an employer provides a car to two employees for private use and:

- the car's base value is \$30,000

- the car is available to employee one for 183 days and employee two for 182 days
- employee one travels 20,000 kilometres and employee two travels 7,000 kilometres (the annualised kilometres are 27,000, so the relevant statutory percentage is 11%).

Taxable value = $(30,000 \times 11\% \times 365/365) = \$3,300$

7.5 Operating cost method

Use the following formula to calculate the taxable value of car fringe benefits under the operating cost method:

Taxable value = $(A \times B) - C$

Where:

- A is the total operating costs
- B is the percentage of private use
- C is the employee contribution.

Determining total operating costs

For this particular purpose, the operating costs of a car include some:

- actual costs
- some deemed costs (that is, certain costs that are considered to have been incurred even if they have not been).

Therefore, these total operating costs are therefore different from those relevant for income tax purposes and include GST as appropriate.

Actual operating costs

The actual operating costs (including GST) are those expenses incurred for:

- repairs, but not crash repair expenses met by an insurance company or another person legally responsible for the damage to the car
- maintenance
- fuel
- registration and insurance (that is, the registration and insurance charges for the year or part of the year you used the car to provide fringe benefits)
- leasing costs, if you lease rather than own the car (that is, the leasing costs of the car for the year or part of the year you used it to provide fringe benefits).

You include operating costs paid by someone else (for example, an employee or associate) when calculating total operating costs of a car in a year. As already noted, an exception to this rule is that any crash repair expenses met by an insurance company or other

person legally responsible for the damage to the car are not included in total operating costs.

Deemed operating costs

Deemed operating costs are those expenses deemed to be incurred for depreciation and interest.

Deemed costs are relevant only if the car is owned, rather than leased. A car under hire purchase is considered to be owned by the hirer from the start of the hire purchase agreement.

Depreciation

You calculate deemed depreciation by multiplying the depreciated value of the car at the start of the FBT year by the deemed depreciation rate that applied at the time the car was purchased. If you did not use the car to provide fringe benefits for the full year, apportion the depreciation to reflect the period it was so used.

The depreciated value of a car for the year in which it is acquired is the cost price, including the cost of non-business accessories. The cost price includes GST and luxury car tax as appropriate.

You include dealer 'delivery' charges (including GST) in the cost of the car, but not registration and stamp duty charges.

In a subsequent year, the depreciated value of a car is the cost of the car, reduced by the deemed depreciation over the period of ownership. You calculate this using the deemed depreciation rate in force at the time you purchased the car.

You also include deemed depreciation on non-business accessories fitted to the car after its

Change to depreciation rate

The FBT legislation reflects the change in effective life of cars for income tax purposes from 6.66 years to 8 years. This means that a different deemed depreciation rate applies to cars acquired on or after 1 July 2002.

The FBT legislation has been updated to reflect the income tax diminishing value capital allowance figure for the **2008-09 FBT year** onwards.

From **1 April 2008**, the depreciation rate for cars acquired on or after 10 May 2006 is 25%.

The deemed depreciation rate changed from 1 April 2008 (the FBT year ending 31 March 2009) onwards as follows:

| Date car purchased | FBT year ending 31 March 2008 (previous rates) | FBT year ending 31 March 2009 and future years (current rates) |
|----------------------------------|--|---|
| Up to and including 30 June 2002 | 22.5% | 22.5% |
| From 1 July 2002 to 9 May 2006 | 18.75% | 18.75% |
| On or after 10 May 2006 | 18.75% | 25% |

purchase. An example of a business accessory is a two-way radio in a salesman's car, while alloy wheels and seat covers are non-business accessories.

You calculate deemed depreciation on this basis regardless of how you treat depreciation for income tax purposes.

The income tax depreciation cost limit does not apply for FBT purposes.

Cost price

Cost price is generally the expenditure incurred by you or the lessor for the acquisition or delivery of the car. Usually, this is the purchase price (GST included) that has been paid, although there may be arrangements in place which have an impact on the cost price.

For example, where an employee provides a trade-in or cash payment as part of the sale agreement, the cost price would be the purchase price minus the trade-in or cash payment. Fleet discounts and manufacturer rebates may also reduce the expenditure incurred on the acquisition of the car.

Alternatively, where an employee pays an amount directly to you, you will need to look at the terms of any agreements and contracts in place to determine whether this payment is an employee contribution or not.

An employee contribution does not reduce the cost price of the car.

For more information about the cost price of a car, refer to Taxation Ruling **TR 2011/3**

Interest

You calculate deemed interest by multiplying the depreciated value of the car by the statutory interest rate. The statutory interest rate is published annually in a taxation determination and is also in the annual FBT return form instructions.

You calculate deemed interest on this basis regardless of any actual interest costs associated with purchasing the car. If you do not use the car to provide fringe benefits for the full year, apportion the amount of interest to reflect the period it is so used.

You also include deemed interest on non-business accessories fitted to the car after its purchase.

Determining percentage of private use

The percentage of private use of a car for a particular year is the difference between 100 and the percentage of business use. For example, if the percentage of business use is 75%, the percentage of private use is 25%.

Certain requirements must be met in order to ascertain the percentage of business use of a particular car and substantiate that percentage of business use. These include keeping logbook records and odometer records - for more information, see **section 7.8**

Private use generally

Private use is any use of your car by an employee or their associate that is not for income-producing purposes of the employee or the associate.

Travel to and from work is normally private use, even if the employee does minor jobs such as picking up mail on the way. There are a few circumstances where travel between home and work may count as work travel. These are outlined below.

Travel while on call

The fact that an employee may travel to and from work in response to a call while on stand-by would not ordinarily alter the character of that travel, that is, it remains private travel.

However, it is different where it can be determined that the employee started duties when they received the call. In this case, the journey from home to the place of employment is undertaken, not to start work, but to complete employment duties already under way before the journey started. Therefore, the travel, including the return trip, would therefore constitute business travel.

For example, a medical practitioner, under the terms of employment with a hospital, is required to be accessible by phone to receive emergency calls and to give immediate treatment instructions before travelling to the hospital. Therefore, their responsibility for treating the patient starts when they receives the call.

Although the travel taken in response to an emergency call is considered business travel, regular daily travel undertaken by the employee to and from work, and not in response to an emergency call, is still considered private.

This is different from the situation where an employee on stand-by duty is called on by the employer, but does not actually commence duties until after they arrive at the place of employment (for example, a computer technician on stand-by duty who does not start duty until after arriving at the workplace).

Where an employee chooses to perform some of their work at home and, as a consequence, needs to respond to a call to attend to particular duties at the office or other usual workplace, travel to and from the office or other usual workplace is private.

Business trip on way to or from work

Where an employee is required in their ordinary course of duties to visit clients or customers, and the travel is from their usual place of employment, it is business travel.

Where an employee travels from home to the premises of a client or customer, the travel is accepted as business travel where:

- the employee has a regular place of employment to which they habitually travel
- in performing their duties as an employee, they travel to an alternative destination that is not a regular place of employment (for example, a plant operator who ordinarily travels directly to the job site rather than first calling at the depot)
- the journey is to a location at which the employee performs substantial duties (for example, if an architect calls at a building site to check on plans on the way to the office where they are employed, this would be considered business travel).

Employment duties of an itinerant nature

Travel from an employee's home may be considered business travel where the nature of the office or employment is itinerant. Examples include commercial travellers and government inspectors whose homes are a base of operations, from which they travel to one of a number of locations throughout the day, over a continuing period.

Commonly, in these cases the employee works at the employer's office periodically (for example, once a week) to complete or file reports, pick up supplies or organise future trips. Travel between home and the office made in these limited circumstances is accepted as an ordinary incident of the business travel and, as such, is also treated as business travel.

The following characteristics are indicators of an itinerant worker:

- travel is a fundamental part of the employee's work
- the existence of a web of workplaces in the employee's regular employment - that is, the employee has no fixed place of work
- the employee continually travels from one work site to another (an employee must regularly work at more than one work site before returning to their usual place of residence).

Travel between places of employment or business

Travel directly between two places of employment, two places of business or a place of employment and place of business is generally accepted as business travel where the person does not live at either of the places and they travel to engage in income-producing activities.

Determining the employee contribution

The amount that would otherwise be the taxable value of a car fringe benefit is reduced by the amount of any employee contribution.

An employee contribution may be either:

- an amount paid directly to you by the employee for use of the car - the employee contribution must be made from the employee's after-tax income and is included in your assessable income
- an amount paid by the employee to a third party for some of the car's operating costs (for example, fuel) and these contributions are not included in your assessable income.

However, the employee must provide you with documentary evidence of the expenditure (for example, receipts or invoices). In the case of petrol and oil costs, a declaration from the employee is sufficient for this purpose and receipts are not required. The declaration must be in a form approved by the Commissioner. For the approved declaration, refer to *Declarations*.

An employee contribution (other than a contribution of services as an employee) is treated as consideration for a taxable supply for GST purposes. Therefore, you have to pay GST on the supply. You reduce the taxable value of the fringe benefit by the GST-inclusive amount of the employee contribution.

An employee contribution does not have any GST implications for you if either:

- the contribution is made through payment of an amount by the employee for some of the car's operating costs (for example, fuel)

- you are neither registered nor required to be registered for GST.

In certain circumstances, journal entries in your accounts can be an employee contribution.

Example: Calculation using the operating cost method

A car purchased by an employer in January 2008 is used privately by an employee throughout the FBT year 1 April 2008 to 31 March 2009, and:

- operating costs (including GST, as appropriate) for that period (fuel, insurance, registration, repairs and so on) total \$5,000
- the depreciated value at 1 April 2008 is \$20,000, so that depreciation at 25% to 31 March 2009 would be \$5,000 (that is, 25% of \$20,000)
- the statutory interest rate is 9.00%, so that the interest component to 31 March 2009 would be \$1,800 (that is, 9.00% of \$20,000)
- the percentage of private use established under the procedures outlined above is 25%
- the employee spent \$1,000 on fuel and has provided the required declaration to the employer.

The taxable value of the car fringe benefit for the 2008-09 FBT year would be:

$$A \times B - C$$

Where:

- A = \$11,800 (total operating costs), that is, \$5,000 actual costs plus \$5,000 deemed depreciation plus \$1,800 deemed interest
- B = 25% (percentage of private use)
- C = \$1,000 (amount of employee contribution).

$$\text{Taxable value} = (\$11,800 \times 25\%) - \$1,000 = \$1,950$$

7.6 Exempt car benefits

There are circumstances in which private use of a car by a current employee may be exempt from FBT.

An employee's private use of either:

- a taxi, panel van or a utility designed to carry less than one tonne
- any other road vehicle designed to carry a load of less than one tonne (that is, a vehicle not designed principally to carry passengers) is exempt if the employee's private use of such a vehicle is limited to
 - travel between home and work

- travel incidental to travel in the course of performing employment-related duties, and
- non-work-related use that is minor, infrequent and irregular (for example, occasional use of the vehicle to remove domestic rubbish).

- while having a designed load capacity of less than one tonne, they are not designed for the principal purpose of carrying passengers.

Where the vehicle is designed to carry one tonne or more, you may be eligible for an exemption under the motor vehicles – residual fringe benefits exemption.

Example: Exempt use

An electrical company employee takes the company van (carrying capacity of less than one tonne) home each night as there is no security at the company premises. The only non-work-related use during the FBT year was a trip to pick up some furniture and take it to the employee's home. This use of the van would be exempt from FBT.

If the use of the vehicle exceeds the limits set out above, it is a car fringe benefit. All the private use of the vehicle, including the travel between home and work, is taken into account in determining the business percentage under the operating cost method. If no logbook records are maintained, the statutory formula method must be used to value the car fringe benefit.

Where the vehicle is not a car as defined in section 7.1, a residual benefit arises - for more information, refer to section 18.6 of Residual fringe benefits.

Example: Non-exempt use

A council employee takes a utility (carrying capacity of less than one tonne) home each night and on the weekends. Although the utility is clearly marked as a council vehicle, the employee uses it for shopping and other private purposes during the week and often for country trips on the weekends.

This use of the utility would not be exempt from FBT and would be treated as a car fringe benefit. Assuming there are no logbook records, the taxable value of the utility would be calculated using the statutory formula method.

Dual cab vehicles

Dual cab vehicles are variants of conventional goods vehicles with additional seating positions behind the driver and front passenger seats. They share a common chassis, to which the single or dual passenger cab and alternative tray sections may be fitted.

Dual cabs qualify for the work-related use exemption only if one of the following applies:

- they are designed to carry a load of one tonne or more, or more than eight passengers

A dual cab that has a designed load-carrying capacity of less than one tonne may qualify for the work-related use exemption only if the vehicle is not designed for the principal purpose of carrying passengers. To determine whether the majority of the designed load capacity is attributable to passenger-carrying capacity, multiply the designed seating capacity (including the driver's seat) by 68 kilograms, which is the figure used for applying the Australian Design Rules. If the total passenger weight so determined exceeds the remaining 'load' capacity, the vehicle is treated as being designed for the principal purpose of carrying passengers and is ineligible for the work-related use exemption.

Example: Dual cab vehicles

A dual cab vehicle with a gross vehicle weight of 1,950 kilograms, a basic kerb weight of 1,400 kilograms and a designed seating capacity of five would be considered a vehicle designed principally for carrying passengers. This is because the majority of the total load capacity (340 kg (5 x 68 kg) of a total of 550 kg) would be absorbed by its designed passenger-carrying capacity.

Modified cars

In limited circumstances, modified vehicles originally designed as passenger cars may be eligible for an exemption from FBT that is available for vehicles not designed for the principal purpose of carrying passengers.

Generally, the exemption applies only where modifications permanently change a car and cannot be readily reversed for the car to be regularly used alternately as a passenger or non-passenger car, if required. A clear example of this would be the process involved in producing hearses, where a station wagon body is extended, the rear doors removed, flush panelling fitted and the compartment behind the driver's seat suitably modified.

Unregistered vehicles

If a car is unregistered for the full FBT year and used principally for business purposes, any private use is exempt from FBT. A car that may be lawfully driven on a public road is regarded as being registered.

Personal services entities

A car benefit is an exempt benefit in relation to an FBT year if the person providing the benefit cannot deduct an amount under the *Income Tax Assessment Act 1997* (ITAA 1997) for providing the benefit because of section 86-60 of that Act.

Section 86-60 of the ITAA 1997 limits the extent to which a personal services entity can deduct car

expenses. Deductions are not allowed for more than one car for private use.

The use of these cars is an exempt benefit because the entity is not entitled to claim an income tax deduction for these cars.

7.7 Novated leases

Full novation

Under this arrangement, an employee leases a vehicle from a financier using a standard finance lease agreement. The employee, you (the employer) and the financier then enter into a novated lease, which transfers to you for the term of the lease:

- the employee's obligation to pay the lease payments
- the right to use the vehicle
- other obligations under the finance lease.

As the employer in the novated lease, you are entitled to a deduction for lease expenses where the vehicle is used in the business or provided to an employee as part of a salary packaging arrangement. However, this rule does not apply to leasing a luxury car. In the case of a luxury car, the deduction is based on an accrual amount and depreciation is subject to the luxury car depreciation limit.

FBT consequence of full novations

A car fringe benefit arises where you are the lessee of a car that is provided for the private use of an employee or associate of the employee. Cars under a full novated lease are subject to the same car fringe benefit valuation rules as other cars you lease.

Split full novation

A variation on the full novation is an arrangement known as a split full novation. Under this arrangement, the lessee's rights and obligations under a finance lease (except the residual payment obligation) are transferred to you.

FBT consequences of split full novations

Cars under a split full novated lease are subject to the same car fringe benefit valuation rules as other cars you lease.

Transfer of lease to new employer

Upon a terminating event, such as the payment of the last lease payment under the novated lease or termination of employment, a further novation may occur. Under the further novation, your rights and obligations are novated to the employee. The employee becomes the lessee and can take this lease to another employer.

Where an employee transfers a novated lease to a new employer who is not an associate of yours, the base value of the car is the market value at the time of transfer.

Example

An employee has a bona fide novated leasing arrangement with their employer. The base value of the leased car at the start of the lease was \$35,000. The employee finished employment with the company on 31 March 2008. At that time, the novation agreement between the finance company and the employer was terminated. The employee became responsible for the lease obligations from 1 April 2008.

The employee started working for a new employer on 1 May 2008. The new employer entered into a new novation agreement on this date. The market value of the car on this date was \$25,000.

The base value of the car to the new employer is \$25,000, assuming the new employer is not an associate of yours. However, the base value remains at \$35,000 if the new employer is an associate of yours.

FBT consequences of acquiring the car at the end of a lease

If the employee acquires the car at the end of a bona fide lease for its residual value, this will be an arm's length transaction on which you would not be subject to FBT.

This is because the residual value and notional value would be the same, so the benefit provided to the employee will have a nil taxable value.

We will generally accept the agreement as a bona fide lease if:

- there is no express or implied agreement under which ownership would pass to the lessee at the end of the lease
- the residual value under the lease is equal to or exceeds the minimum residual value calculated in accordance with Taxation Ruling *IT 28*.

However, if the agreement is not covered by a bona fide lease, a fringe benefit would usually arise.

7.8 Record keeping requirements for cars

The record keeping requirements vary for the statutory formula and operating cost methods and are explained below. For more information, refer to *Fringe benefits tax record keeping*.

Fuel and oil expenses declaration

You can apply car expenses paid for by an employee as an employee contribution under both the statutory formula and operating cost methods. However, the employee must provide you with documentary evidence of the expenditure (for example, receipts or invoices). In the case of petrol and oil costs, a declaration from the employee is sufficient. The declaration must be in form approved by the Commissioner.

You have to obtain any relevant declarations before the due date for lodging your annual FBT return or, if you do not have to lodge a return, by 21 May.

To obtain a copy of the fuel expenses declaration, refer to *Declarations*.

Statutory formula method records

Base value

You can obtain the base value of a car from the normal purchase records or any other records relating to the direct cost of the vehicle. The records should include the purchase price (subject to the various inclusions and omissions discussed in section 7.4) and the date of purchase.

Records you can use to work out the base value include:

- invoices/tax invoices
- receipts
- journal entries
- bills of sale
- lease documents.

Total kilometres travelled

If you use the statutory formula method to calculate the taxable value of a car fringe benefit provided before 7.30pm AEST on 10 May 2011, or where you had a pre-existing commitment for a car benefit provided after that time, or you are required to use the transitional rates, you have to determine the total kilometres travelled by the car during the year. The best way to do this is to keep a record of the odometer readings at the beginning and end of the FBT year.

If you do not record odometer readings for the car, it is acceptable to provide appropriate evidence of two separate odometer readings close to the beginning and end of the FBT year, for example:

- vehicle purchase or sale invoices showing an odometer reading
- repair invoices showing an odometer reading
- service records showing an odometer reading
- any document used for registration purposes that shows an odometer reading (for example, pink slips)
- entries in your logbooks showing an odometer reading close to the beginning and/or end of the FBT year (as long as the entry is dated, shows the name and signature of the person making the entry and the odometer reading)
- fleet management or oil company charge cards that show an odometer reading on account statements
- if a new car was purchased and no odometer reading was recorded on the vehicle purchase invoice, zero kilometres is acceptable as the opening odometer reading.

Days available for private use

If a car is available for private use every day of the year, you do not have to keep records of when the car is available. But you must record the days when the car is not used or available for private travel. You can do this in a number of ways, including referring to the pattern of use - for example, where a car is garaged each night.

Operating cost method records

Calculating and substantiating the percentage of business use

If you use the operating cost method to calculate the taxable value of a car fringe benefit, you have to calculate the percentage of business use of the car and keep records that substantiate the percentage of business use.

Because logbook records are normally maintained for only 12 weeks, take care in estimating the percentage of business use of the car. The estimate must take into account the information in the logbook records and the odometer records, as well as any variations in the pattern of business use throughout the year.

The percentage of business use of a car is calculated as:

$$\frac{A}{B} \times 100\%$$

Where:

- A = your estimate of business kilometres travelled by the car during the FBT year (or part-year, as the case may be)
- B = the total kilometres (both business and private) actually travelled by the car during the same period.

Estimating the business kilometres travelled in a logbook year

In estimating the business kilometres travelled in a logbook year, you must:

- keep a logbook recording details of business journeys undertaken in the car for a continuous period of at least 12 weeks (the logbook period must also be recorded in the logbook)
- keep odometer records of the total kilometres travelled during that period
- keep odometer records of the total kilometres travelled during the year
- estimate the number of business kilometres travelled during the full FBT year (or part-year, if appropriate)
- take into account all relevant matters, including logbook, odometer and any other records you keep, and any variations in the pattern of

business use throughout the year due to things like holidays or seasonal factors.

Estimating the business kilometres travelled in a non-logbook year

In estimating the business kilometres travelled in a non-logbook year, you must:

- keep odometer records of the total kilometres travelled during the year (or part-year, if appropriate)
- estimate the number of business kilometres travelled during the full FBT year (or part-year, if appropriate)
- take into account all relevant matters, including logbook, odometer and any other records you keep, and any variations in the pattern of business use throughout the year due to things like holidays or seasonal factors.

Replacement cars

If you replace a car during the year, you may treat the replacement car as though it were the replaced car for the purposes of complying with the requirements of the operating cost method.

If you maintained logbooks and odometer records during the year or in a previous year, you may transfer

that percentage to the new car (if it remains appropriate) when estimating a business percentage for the replaced car.

The transfer of a business percentage in this way is conditional on you recording in your business records the make, model and registration number of both cars and the date on which the replacement was made. These entries must be made before the due date for lodging your annual FBT return or, if you do not have to lodge a return, by 21 May. Odometer records you keep for the cars during the replacement year must show details of the odometer readings of both the replaced car and the new car on the replacement date.

Logbook year

A year is a logbook year if one of the following applies:

- none of the previous four years was a logbook year of tax for that car
- you elect to treat the year as a logbook year (for example, to increase the nominated percentage of business travel)
- the Commissioner of Taxation, by written notice, requires you to treat the year as a logbook year.