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## Fringe benefits tax

Fringe benefits are benefits received by employees (or associates of the employees) from their employer in place of or in addition to salary or wages, such as the use of a car for private purposes.

Fringe benefits tax (FBT) is the tax payable on non-salary benefits provided to the employee. The term benefit is broadly defined and includes any right, privilege, service or facility. FBT is paid by employers, irrespective of whether they are sole traders, partnerships, trusts, corporations, unincorporated associations or government bodies, and irrespective of whether they are liable to pay other taxes such as income tax. Employees do not pay income tax on the fringe benefits they receive.

FBT is based on the grossed-up value of the fringe benefits provided. (Grossing-up rules were introduced in April 1994 to ensure salary/wage income and fringe benefits to employees received similar tax treatment.)

The *Fringe Benefits Tax Assessment Act 1986*, as well as other related acts, provide the legislative basis, and are designed to improve the fairness of the tax system.

An FBT year begins 1 April and concludes the following 31 March, however, returns lodged through a tax agent may have a different lodgment date.

The FBT rate applicable for the year 1 April 1999 to 31 March 2000 was 48.5%. Grossing-up effectively increased the amount against which the FBT rate was applied by 94.2%. This is called the fringe benefits taxable amount.

Under the grossing-up rules introduced on 1 April 1994, the taxable value is increased by

$$1/(1 - \text{FBT rate})$$

As an offset to the grossing-up rules, employers are allowed an income tax deduction for FBT tax paid. Some tax-exempt employers who are unable to claim an income tax deduction for payments of FBT are able to reduce their FBT liability with a concessional rebate. FBT paid in respect of fringe benefits provided after 1 April 1994 may also be an allowable income tax deduction.

For the purposes of effective processing, the ATO has staggered reporting and remittance periods for different entities. The remittance period for FBT returns (1 April–31 March) enables the ATO to collect and process data from the current FBT year and include it in the 1998–99 *Taxation Statistics* publication. For this reason, the statistics in this chapter are compiled from fringe benefits tax returns for the 1999–2000 income year and processed before 23 October 2000.

Changes in the FBT return form for this year, have meant that data for 'organisation type' is no longer available.

## Reportable fringe benefits

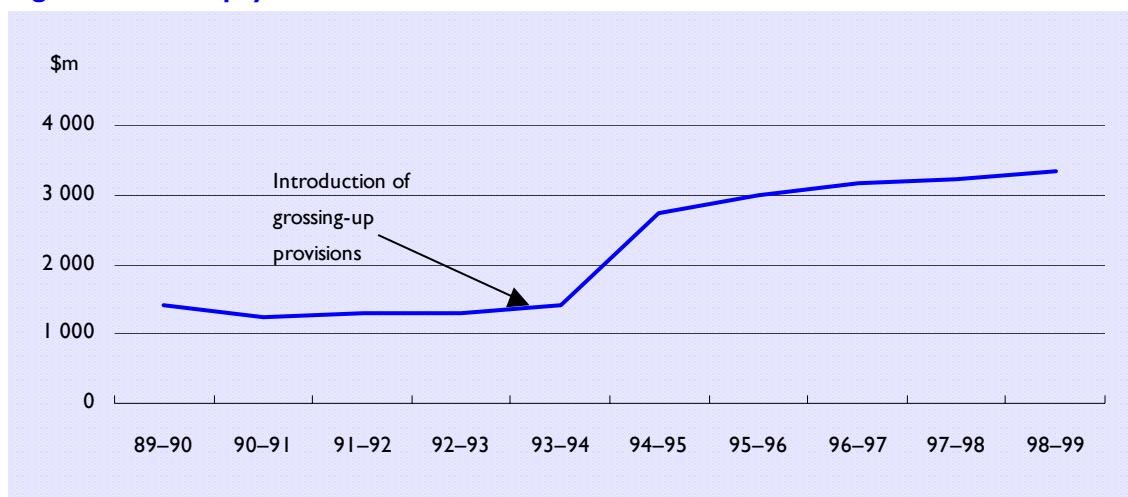
As part of overall tax reform measures, major changes were made to the fringe benefits reporting requirements for 1999–2000.

From the FBT year 1999–2000, a new level of reporting became mandatory for all employers. Employers are now required to keep track of fringe benefits provided to individual employees. If the total taxable value of fringe benefits provided to an employee in a FBT year exceeds \$1000, it must be included in the grossed-up taxable value on the employee's group certificate. This value is called the reportable fringe benefits amount. This amount also includes fringe benefits provided to an employee's associates, such as a spouse or child.

In previous years, employers were required to declare the total taxable value of the fringe benefits provided to all employees, with FBT payable on the grossed-up value. In effect, this enabled employees with access to salary packaging to avoid surcharges and child support obligations, and gain access to government benefits to which they would otherwise not be entitled.

The amount reported on group certificates is not included in employees' assessable (or taxable) income. However, it will be used to determine liability to superannuation and Medicare levy surcharges, entitlement to various income-tested government benefits, and concessions and child support obligations (such as family tax and/or childcare benefits).



**Figure 12.1: FBT payable**

Reportable fringe benefits commenced from 1 April 1999 which means group certificates for the financial year ended 30 June 2000, will need to show these amounts (as a separate item).

Certain benefits are excluded from the new reporting requirements, such as leasing of entertainment facilities (for example corporate boxes), meals/entertainment, car parking and certain benefits relating to employees living in remote areas. However, employers are still subject to FBT on benefits such as employer-provided cars that are available for private use, low interest loans to employees, residential accommodation and discounted air travel.

For example, people working in the finance, insurance, real estate and business services industry are more likely to receive benefits such as low-cost loans, debt waivers, expenses and property, whilst employees in the mining industry are more likely to receive housing as a fringe benefit.

The finance, insurance, real estate and business services industry accounted for 86% of all employees who received loan benefits. The mining industry accounted for 18% of all employees who received housing benefits. The transport and storage industry accounted for 97% of all employees who received airline transport benefits. (This is because this type of fringe benefit only arises when employees or associates of airlines or travel agents are provided with free

## Revenue raised

In 1999–2000, there were 61 287 fringe benefits taxpayers, a decrease of 5% from the previous year. These taxpayers were liable for nearly \$3.3 billion in FBT.

The reduction in FBT payers has declined at an average rate of 4% over the past 10 years. This is partly due to an increased trend for employers to seek employee contributions to negate their requirement to lodge FBT returns. Employers are not required to lodge FBT returns when employee contributions reduce the FBT liability to nil.

## Type of benefit

Some industries are more likely to provide fringe benefits and/or specific types of fringe benefits.

**Table 12.1: FBT payable<sup>1</sup> by type of benefit**

Type of benefit	Total tax payable	
	\$m	%
Motor vehicle total	1 542	46.9
Loan	60	1.8
Debt waiver	18	0.5
Expense	808	24.6
Housing	114	3.5
Living-away-from-home allowance	45	1.4
Airline transport	37	1.1
Board	9	0.3
Property	104	3.2
Entertainment	24	0.7
Car park	109	3.3
Meals/entertainment	269	8.2
Other	150	4.6
<b>Total</b>	<b>3 289</b>	<b>100.0</b>

1. Includes rebates.

## Taxation Statistics 1998–99

Table 12.2: FBT payable<sup>1</sup> by industry

Industry	SB	LB&I	Total
	\$m	\$m	\$m
Finance, insurance, property & business services	403	607	1 011
Manufacturing	182	392	574
Wholesaling	82	185	267
Retail trade	62	125	187
Mining	34	136	170
Transport & storage	52	106	158
Education	136	1	137
Cultural & recreational services	108	28	135
Construction	63	56	119
Government administration & defence	86	7	93
Health & community services	72	16	88
Communication	58	20	78
Accommodation, cafes & restaurants	36	13	49
Personal & other services	37	7	44
Electricity, gas supply, water sewage & drainage	26	12	38
Primary production	16	19	34
Industry not stated <sup>2</sup>	69	38	107
<b>Total</b>	<b>1 522</b>	<b>1 767</b>	<b>3 289</b>

1. Includes rebates.

2. Industry not stated includes salary and wage earners.

or discounted air travel—subject to the stand-by restrictions that customarily apply to employees in the airline industry.)

### Industry

In 1999–2000, the highest proportion of FBT was paid by the finance, insurance, property and business services industry. This industry was liable for more than \$1 billion in FBT, and accounted for 31% of all FBT payable. The manufacturing industry accounted for 17% and the wholesale industry accounted for a further 8% of all FBT payable. Together, these three industry groups accounted for 56% of all FBT payable.

Motor vehicle benefits are generally the main type of benefit provided to employees and are, on average, the most expensive type of benefit for employers to provide. In 1999–2000, motor vehicle benefits represented 47% of the total FBT paid. This was followed by expenses, which accounted for 25%, and meals/entertainment, which accounted for a further 8% of total FBT paid. The finance, insurance, property and business services, manufacturing and wholesale trade industries provided the greatest proportion (61%) of motor vehicle benefits.

The majority of FBT was paid by large business, which accounted for 54%, with small business liable for the remaining 46% of total FBT paid. While small business accounted for 86% of the FBT payers, large businesses have significantly more employees than small businesses and benefits provided per employee have, on average, a higher value than those provided by small business.

### Rebates

FBT is payable on the grossed-up taxable value of benefits, and an offsetting income tax deduction is allowed for FBT paid. Certain non-profit, non-government employers (such as religious institutions; trade unions; scientific, charitable or public educational institutions; and non-government public hospitals) are unable to claim an income tax deduction for FBT. Therefore, they are eligible for a rebate of 48% of the FBT payable to avoid any disadvantage.

The amount of the rebate is calculated using the following formula:

$$0.48 \times \text{gross tax} \times \frac{\text{rebateable days in the year}}{\text{total days in the year}}$$

Table 12.3: Organisations claiming the FBT rebate

Total	Claimed rebate	Proportion of total
	no.	%
Education	1 188	35.8
Personal & other services	451	13.6
Cultural & recreational services	422	12.7
Health & community services	380	11.5
Finance, insurance, property & business services	290	8.7
Accommodation, cafes & restaurants	165	5.0
Primary production	65	2.0
Transport & storage	35	1.1
Manufacturing	33	1.0
Construction	19	0.6
Retail trade	19	0.6
Wholesaling	12	0.4
Government administration & defence	10	0.3
Salary & wages only	4	0.1
Communication	4	0.1
Mining	3	0.1
Electricity, gas & water supply	2	0.1
Property	0	0.0
Industry not stated	215	6.5
<b>Total</b>	<b>3 317</b>	<b>100.0</b>

Gross tax refers to the amount of FBT payable. Rebatable days refer to the number of days during the year when the employer met the criteria of a rebatable employer.

In 1999–2000, a total of 3317 organisations claimed the rebate. The majority of these were in the education (36%), personal and other services (14%) and cultural and recreational services (13%) industries. This is because organisations in these industries are more likely to satisfy the eligibility criteria for this rebate.

The total value of rebates claimed by eligible organisations in 1999–2000 was \$151 million. Rebates reduced the amount of FBT payable from \$3.3 billion to \$3.1 billion.

## Employee contributions

In some circumstances an employee may make a payment to their employer as a contribution towards the cost of providing fringe benefits. These payments are referred to as employee contributions and are generally assessable income in the hands of the employer.

An employee contribution may only be made from an employee's after-tax income. Contributions in respect of a particular fringe benefit reduce the taxable value of that benefit,

and therefore the amount of FBT payable. They may not be applied to reduce the taxable value of any other fringe benefit. Any operating expenses incurred by the employee in relation to a car supplied by the employer, which are not reimbursed, may also reduce the taxable value. Employee contributions are most likely to be made on motor vehicles and housing benefits. Employers are not required to lodge FBT returns when the employee contributions reduce the total FBT liability to nil.

Employee contributions to FBT were first included in the 1998 company, partnerships and trusts tax return forms. During 1999–2000, a total of 8% of employees from companies, 4% of employees from trusts and less than 1% of employees from partnerships made FBT contributions.

For companies and trusts, the greatest proportion of contributions were paid by employees in the finance, insurance, real estate and business services industry (27% and 30% respectively). However, for partnerships, employees in the retail trade industry paid the greatest proportion of contributions (38%).

## Taxation Statistics 1998–99

**Table 12.4: Employee contributions**

Industry	Companies	Partnerships	Trusts	Total
	\$'000	\$'000	\$'000	\$'000
Finance, insurance, real estate & business services	79 999	1 242	37 107	118 348
Retail trade	38 891	3 669	20 945	63 505
Manufacturing	37 742	443	12 416	50 600
Construction	29 858	1 680	12 355	43 893
Transport & storage	29 327	414	3 561	33 303
Wholesale trade	21 905	296	9 778	31 979
Primary production	11 089	920	10 658	22 667
Health & community services	17 156	93	5 057	22 306
Accommodation, cafes & restaurants	8 898	382	6 668	15 949
Personal & other services	7 211	268	3 321	10 800
Communication	8 411	17	496	8 924
Cultural & recreational services	5 460	112	1 653	7 224
Mining	2 694	12	274	2 981
Education	1 131	29	224	1 384
Electricity, gas & water supply	297	5	82	384
Salary & wages earners	0	9	322	332
Property	0	3	205	208
Other <sup>1</sup>	844	0	65	910
<b>Total</b>	<b>300 914</b>	<b>9 595</b>	<b>125 189</b>	<b>435 699</b>

1. Other includes subsidiary returns and industry not stated.



### Record keeping exemption arrangements

The 1998–99 FBT year was the first year in which the record keeping exemption arrangements came into effect. The government introduced these arrangements with the aim of reducing the compliance costs of record keeping for small business. These arrangements allow certain employers to elect not to keep records for a FBT year and to have their FBT liability for that year determined using the total taxable value of fringe benefits provided in an earlier base year in which FBT records were kept.

An employer can elect to use the arrangements if they are not a government body or an income tax exempt organisation. FBT records must also have been kept in the base year, and the total taxable value of fringe benefits provided in the base year must not exceed the exemption threshold in a full year (1996–97, \$5000; 1997–98, \$5130; 1998–99, \$5145; 1999–2000, \$5191). The arrangements can also be used when the total taxable value of fringe benefits provided in the current year is not more than 20% greater than the most recent base year value.

### Return form compilation

FBT returns were lodged either electronically or in paper form. A copy of the return form can be found in the appendix. Statistics for most items shown on the return form are included in the detailed tables.

### Tax reform and fringe benefits

There were two main changes made to the fringe benefits reporting requirements for 1999–2000. The first change, requiring reportable fringe benefits for individuals, took effect for the 1999–2000 FBT year. The second change was made to the reporting timelines and will take effect for the 2000–01 FBT year.

From the FBT year commencing 1 April 2000, instalments will be due on 21 July, 21 October, 21 January—balancing on 21 April. Entities required to pay fringe benefits tax will be able to account for it and pay the ATO any amounts owed through their monthly or quarterly Business Activity Statement.





Other changes to FBT that take effect from the 2000–01 year are referred to as phase two of FBT reform. Phase two will include:

- stopping overuse of the concessional treatment of public benevolent institutions and certain not-for-profit organisations by limiting, for each employee, the value of fringe benefits for concessional treatment to \$17 000 of grossed-up taxable value where the employer is a public hospital, non-profit hospital or non-government hospital (effective 1 April 2000), and \$30 000 where the employer is a public benevolent institution (other than a hospital) or a rebatable employer (effective from 1 April 2001);
- extending the FBT exemption to all of remote-area-housing employees; and
- in order to avoid disadvantaging employers in situations where GST input credits are not available, employers will be allowed to apply the existing FBT gross-up formula to fringe benefits on which no GST is payable, or where input credits may not be claimed. The GST-inclusive gross-up rate will apply where the provider of the fringe benefit is entitled to claim an input tax credit.

## Detailed tables

The following detailed tables on FBT can be found on the CD-ROM attached to this publication.

Table 1: Grade of net tax by business line

Table 2: Type of benefit by business line

Table 3: Business line by industry

Table 4: Type of benefit by industry

