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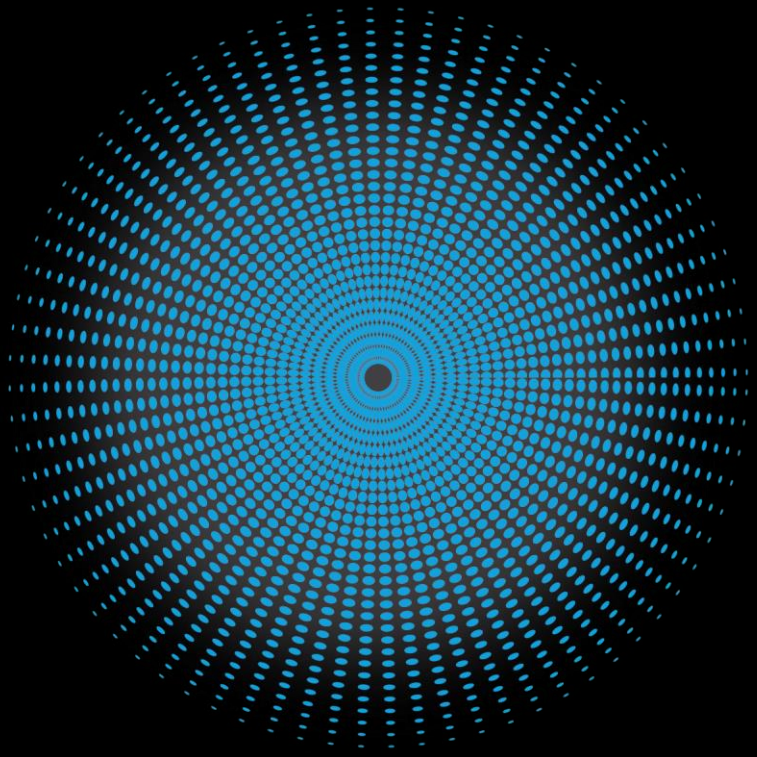

2018 Fringe Benefits Tax and Single Touch Payroll
A synopsis of key considerations

Stewart Williams, Deloitte Tax Services Pty Ltd – 2 May 2018

Background

Expat Taxes
Employment Taxes
Global Equity and Reward
Immigration

Intentions

What you should gain?

As a result of the discussion today, the hope is that you will receive a recap of:

- Fundamental concepts of FBT
- Not For Profit Concessions - the thought process
- Application of concessions to PBIs
- Common benefits and salary sacrifice basic concepts
- Common exemptions and concessions - your opportunities for competitive packages
- Single Touch Payroll

…..I highly encourage interaction and sharing of knowledge…..

Fringe Benefits Tax (FBT)
Fundamental concepts

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Fringe Benefits Tax
Fundamental concepts

- FBT is a federal tax payable by employers for fringe benefits provided to employees and/or their associates
- FBT year – 1 April to 31 March
- FBT is self-assessed and paid by quarterly instalments through the BAS
- Balancing adjustment to be made by 28 May
- The due date for electronic lodgement of the FBT return is 25 June, if lodged by Deloitte

…how much gross cash would we need to pay to provide a similar benefit out of post tax income?

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Fringe Benefits Tax
Fundamental concepts – fringe benefits

- A fringe benefit is a "benefit" provided:
  - By an employer, an associate of the employer or a third party under an arrangement with the employer;
  - To an employee or an associate of the employee
  - In respect of employment

- BUT does not include (some examples):
  - salary and wages
  - superannuation contributions
  - an interest in an employee share scheme (ESS)
  - employee termination and similar payments

Fringe Benefits Tax
Fundamental concepts – employees

Who is an employee?

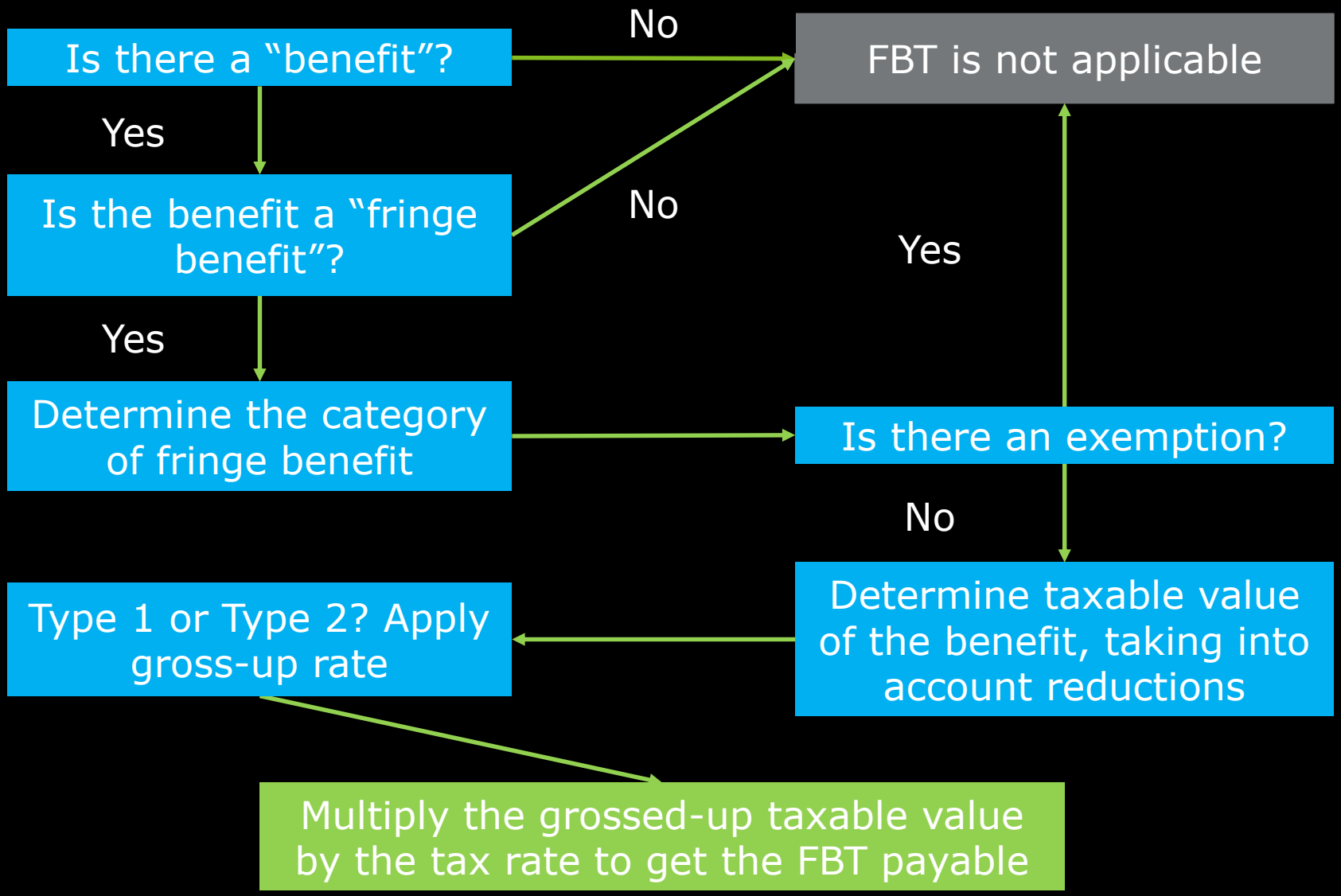
- An employee is an individual for whom the employer is required to withhold income tax (PAYG withholding)
- Includes current, future and former employees

Who is an associate of an employee?

- A relative (e.g.. spouse, parent, grandparent, brother, sister, uncle, aunt, nephew, niece, etc.)
- A company, where it is significantly influenced by the employee or an associate

Fringe Benefits Tax

Fundamental concepts – flow chart



Fringe Benefits Tax
Fundamental concepts – grossing up

Gross up the taxable value by the applicable gross-up factor. This is dependant on whether the employer is able to claim an input tax (GST) credit on the provision of the benefit:

- Type 1 gross-up rates: GST credit can be claimed: 2.0802
- Type 2 gross-up rates: GST credit cannot be claimed: 1.8868

Common GST free items include international airfares, residential rent, purchases made overseas, gift vouchers, loan repayments

Fringe Benefits Tax

Fundamental concepts – gross up example

Sarah is employed by Company Pty Ltd. For exceeding her sale targets for December 2017, Sarah was given a Samsung television for which her employer paid $1,000

The provision of a television will constitute an external property fringe benefit. The taxable value of the television will be the amount paid by her employer:

- Taxable value: $1,000
- Grossed-up taxable value: $1,000 x 2.0802 = $2,080

NOTE: The taxable value and grossed-up taxable value are always rounded down to the nearest dollar.

Fringe Benefits Tax
Fundamental concepts – tax calculation

Company Pty Ltd provided a variety of fringe benefits to employees in the 2018 FBT year, including cars, property, housing, car parking and meal entertainment.

- 2018 Type 1 aggregated amount: $157,820
- 2018 Type 2 aggregated amount: $5,160

FBT calculation for the 2018 FBT year (using 2018 rates):

Type 1: 157,820 * 2.0802 =	$328,297
Type 2: 5,160 * 1.8868 =	$9,735
Tax payable ($338,032 * 47%) =	$158,875.04
Less: Instalments	($177,290)
Credit due =	($18,414.96)

Fringe Benefits Tax
Fundamental concepts - instalments

Instalments are based upon your last lodged FBT returns and generally equal to 1/4th of your prior year FBT liability

Consider variation where business operations have changed

Fringe Benefits Tax
Fundamental concepts – reportable fringe benefit amounts

All benefits, other than excluded fringe benefits, must be reported on employee payment summaries where total non grossed-up benefits exceed $2,000 – reportable fringe benefit amounts (RFBAs)

Importantly, benefits reported on payment summaries must be grossed-up at the Type 2 rate of 1.8868 for the FBT year commencing 1 April 2017 (2018 FBT year)

Excluded fringe benefits include:

- Car parking
- Certain remote area benefits (residential fuel, housing assistance, home ownership schemes, home repurchase schemes, occasional travel to major populations)
- Shared and pooled cars
- Meal entertainment and EFLE (unless salary sacrificed)

Fringe Benefits Tax
Fundamental concepts – RFBA example

Sarah and Kate were provided with the following fringe benefits by their employer, Company Pty Ltd (all amounts are non-grossed-up figures):

Benefit	Sarah	Kate
Car	$3,215	0
Expense payment	0	$570
Property	$1,000	$350
Car parking	$2,280	$2,280
Total	**$6,495**	**$3,200**

Sarah's RFBAs are: ($3,215 + $1,000) x 1.8868 = $7,952.86

Kate will not have any RFBA shown on her payment summary as the total non-excluded benefits ($570 + $350) do not exceed $2,000

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Salary packaging
General concepts

Fringe Benefits Tax
Salary packaging (generally)

- FBT at top rate of tax (47% for 2018 tax year) versus PAYG withholding at individual's marginal income tax rate
- Generally only package concessionally taxed or exempt benefits
- Employee forgoes future salary in return for the provision of a benefit (i.e. a prospective arrangement)
- Where benefit is concessionally taxed (but not exempt), consider pre and post tax contributions
- Post-tax contributions are used to reduce the FBT payable to nil (employee contribution method or ECM)

Fringe Benefits Tax
Salary packaging

…however…

Fringe Benefits Tax
Charity status

Public Benevolent Institution (PBI):

A not for profit organisation is a PBI if its principal objectives are the relief of poverty, sickness, suffering, distress, misfortune, destitution or helplessness and its activities are carried on without the purpose of private gain for particular people.

Health Promotion Charity (HPC):

A health promotion charity is a non-profit charitable institution whose principal activity is promoting the prevention or control of diseases in human beings

The characteristics of a health promotion charity are that:

- Its principal activity is promoting the prevention or control of diseases in human beings and it is a charity which is a charitable institution

Fringe Benefits Tax
Charity status (cont.)

Public and non-profit hospitals

A hospital is an institution in which patients are received for continuous medical care and treated for sickness, disease or injury. The provision of accommodation is integral to a hospital's care and treatment.

Non-profit hospitals include those run by churches and religious orders.

Charitable institutions:

A charitable institution is an establishment, organisation or association that is instituted and operated to advance or promote a charitable purpose. Charitable purpose includes:

- Relief of poverty, advancement of education, advancement of religion or other purposes beneficial to the community

Fringe Benefits Tax
Endorsement

From 3 December 2012, a charity must be registered with the Australian Charities and Not-for-Profits Commission (ACNC) as a Registered Charity:

- Only HPCs, PBIs and religious institutions are required to register with the ACNC
- The Commissioner of Taxation should endorse an entity based on the ACNC classification
- Confirmation should be retained to support any FBT concessional treatment applied and ACNC should be notified of operational changes that may impact characterisation of the organisation

Fringe Benefits Tax
Salary packaging – PBI and HPC concessions

Public Benevolent Institutions (PBIs), government bodies employing hospital staff, certain non-profit hospitals, providers of ambulance services and health promotion charities (HPCs) may be able to provide exempt benefits up to a total grossed-up taxable value

Type of organisation	FBT year ending 31 March 2018	Does the entity need to be endorsed?
Hospital / public ambulance service	$17,000**	No
HPC / non-hospital PBI	**$30,000****	Yes

** Additional $5,000 (grossed up amount) cap for salary sacrificed meal entertainment and entertainment facility leasing expenditure (EFLE)

Car parking is not considered for capping purposes

Common benefits

What is regularly provided?

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Fringe Benefits Tax
Common benefits – a certain mindset

Most employers who are able to access concessions view FBT as a recruitment and retention tool. The following benefits are commonly provided:

- Car fringe benefits
- Meal entertainment / EFLE
- Remote area housing / holiday transport / residential fuel
- Car parking (exempt for PBIs)
- Employer acquired credit cards (for admin)
- Health Insurance, mortgage repayments, superannuation contributions and other regular personal expenses

Fringe Benefits Tax
Novated leases

Car fringe benefits (novated lease arrangements)

- Employee enters into an arrangement with a third party for a lease over a car and the obligations in respect of that car are novated to the employer (tripartite agreement)
- The employer is taken to "hold" the car and assumes responsibility for costs relating to the car
- Costs associated with the novated lease are salary packaged such that the employer remains cost neutral
- The car can be packaged utilising the Employee Contribution Method or standard Salary Package approach (i.e. all pre-tax contributions). Where the latter is utilised, the taxable value needs to be factored into the employee's relevant cap

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Fringe Benefits Tax
Entertainment

- Entertainment by way of food, drink or recreation; or associated accommodation or travel
- …"something affording pleasure, diversion or amusement"…

Three categories of entertainment

- Meal entertainment
- Recreational entertainment
- Entertainment Facility Leasing Expense

Fringe Benefits Tax
Meal entertainment

Not all food and drink provided qualifies as entertainment for tax purposes. Accordingly, it is necessary to determine whether a meal is classified as "sustenance" or "entertainment"

Meal Entertainment	Sustenance
Meals provided for the purpose of entertaining (e.g. business lunches / dinners at restaurants or where alcohol is served, Christmas parties)	Meals while travelling on business
	Morning tea / coffee
	Light meals

Fringe Benefits Tax
Salary sacrificed ME and EFLE

Additional $5,000 cap applies to the grossed-up taxable value of salary packaged meal entertainment and EFLE from 1 April 2016

Cap is limited to the lesser of:

- $5,000; and
- The total grossed-up taxable value of salary packaged entertainment benefits

Salary packaged entertainment benefits are to be captured in the calculation of the employee's RFBAs

Fringe Benefits Tax
Housing – non remote

Non-remote area housing fringe benefit

- Lease or licence to occupy or use a unit of accommodation as the employee's usual place of residence
- A unit of accommodation includes a house, flat or home unit, hotel, hostel, motel or guesthouse, caravan or mobile home
- Broadly, the taxable value is equal to:
    - Rental accommodation – market rental *less* employee contributions
    - Owned accommodation – [statutory annual amount x indexation factor] *less* employee contributions
- MT2025 : valuation for particular accommodation

Fringe Benefits Tax
Housing – remote

Remote area housing

- Exempt if employee's usual place of residence
- Located in a remote area for FBT purposes:
  - https://www.ato.gov.au/general/fringe-benefits-tax-(fbt)/in-detail/exemptions-and-concessions/fbt---remote-areas/

Fringe Benefits Tax
Remote area benefits

Concession	Fringe Benefits Tax Assessment Act 1986
Remote area housing exemption	section 58ZC
Residential fuel reduction	section 59
Remote area loan	subsection 60(1)
Remote area interest	subsection 60(2)
Remote area rent	subsection 60(2A)
Remote area property benefit	subsection 60(3)
Remote area residential property expense payment benefit	subsection 60(4)
Remote area residential option fee	subsection 60(5)
Remote area residential property repurchase consideration	subsection 60(6)
Remote area holiday transport (regardless of whether subject to ceiling)	sections 60A and 61
Remote area home ownership scheme	sections 65CA to 65CC

Fringe Benefits Tax
Issues

Issues to be managed

- Who will bear the FBT cost of employer sponsored benefits (as distinct from salary sacrificed benefits) i.e. how to manage individual grossed-up benefits vs the exemption cap
- Ongoing clarity surrounding objectives of the organisation and FBT status
- Administration of all benefits – is a third party provider appropriate?
- Timing of data collation relative to cap analysis

Common exemptions and concessions

How can we reduce taxable value?

Fringe Benefits Tax
Exempt cars

Taxi, panel van, utility truck designed to carry less than 1 tonne or any other road vehicle not designed for the principal purpose of carrying passengers

Used for the following purposes:

- Work related travel (including home to work travel)
- Other private use is minor, infrequent and irregular

MT2024 guidance surrounding specifications of vehicles

Fringe Benefits Tax
Exempt car parking fringe benefits

An eligible car parking expense payment benefit or car parking benefit will be exempt from FBT where it is provided to an employee of a:

- Registered charity
- Scientific institution, or
- A public educational institution

Car parking is not subject to FBT for PBIs

Fringe Benefits Tax
Minor and infrequent

Examples

- 3 gift cards valued at $120 for employee of the month over the FBT year
- Car fringe benefit provided for full FBT year – taxable value is $300 after employee contributions are applied
- Bottle of wine provided as a gift to employees at the Christmas party
- Employee provided with taxi travel between home and work – 48 trips provided during the year (approx. 4 times per month) each costing $10

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Fringe Benefits Tax
Otherwise deductible rule

- The taxable value of the benefit is reduced by the amount the employee would have been entitled to claim as a once-off income tax deduction if the employee had incurred the costs themselves
- Can only apply where the recipient is the employee, i.e. cannot apply to an associate of an employee
- Examples of where the "Otherwise Deductible Rule" may apply:
    - Work-related expenses (e.g. travel and accommodation expenses, telephone calls)
    - Expenses relating to the employees assessable income (e.g. interest on a loan used to purchase an investment)
    - Work-related study expenses
    - Benefits with business-use percentages and declarations (e.g. e-tag, tolls, fuel)

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Administrative requirements

Is your house in order?

Fringe Benefits Tax

Record keeping

- Lodgement and payment due by: 21 May (further extension is granted to Deloitte)
- Each employing entity is required to lodge an FBT return
- FBT records to be maintained for 7 years
- Reliance on third party data?

Fringe Benefits Tax

Record keeping – declaration considerations

- When do you need to obtain declarations?
- Where there is a strict, enforceable policy that the employer only reimburses work related expenses – ATO allows "No private use" employer declarations
- What form do declarations need to be in?

Common employee declarations / substantiation requirements	**Common employer declarations / elections**
• Fuel expense declaration • Log books • Business use percentage - ODR • LAFH	• No private use declarations • Car fringe benefit election – operating cost method • Meal entertainment – 50/50

Single Touch Payroll

No need to panic

Single Touch Payroll

The ATO intent

Employee Entitlements

- Protecting employee entitlements e.g. Super Guarantee with earlier visibility of SG late or non-payments

Streamlining

- Reporting through natural business processes
- A new way for government to think about streamlined reporting

Real Time Information

- Can help prevent tax and other debts e.g. welfare overpayments

Levelling the Playing Field

- Reduces unfair competitive advantage
- Ensures employers meet their obligations

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Single Touch Payroll

The basics

Who has to report?

Employers with 20 or more employees (as at 1 April each year) will be required to report through Single Touch Payroll from 1 July 2018. Employers with 19 or less employees are required from 1 July 2019.

Which employees do I include?

All employees within the ordinary (common law) meaning of 'employee'. Excludes independent contractors, staff provided by a third party labour hire organisation, company directors, office holders, religious practitioners or any employee who ceased work prior to 1 April.

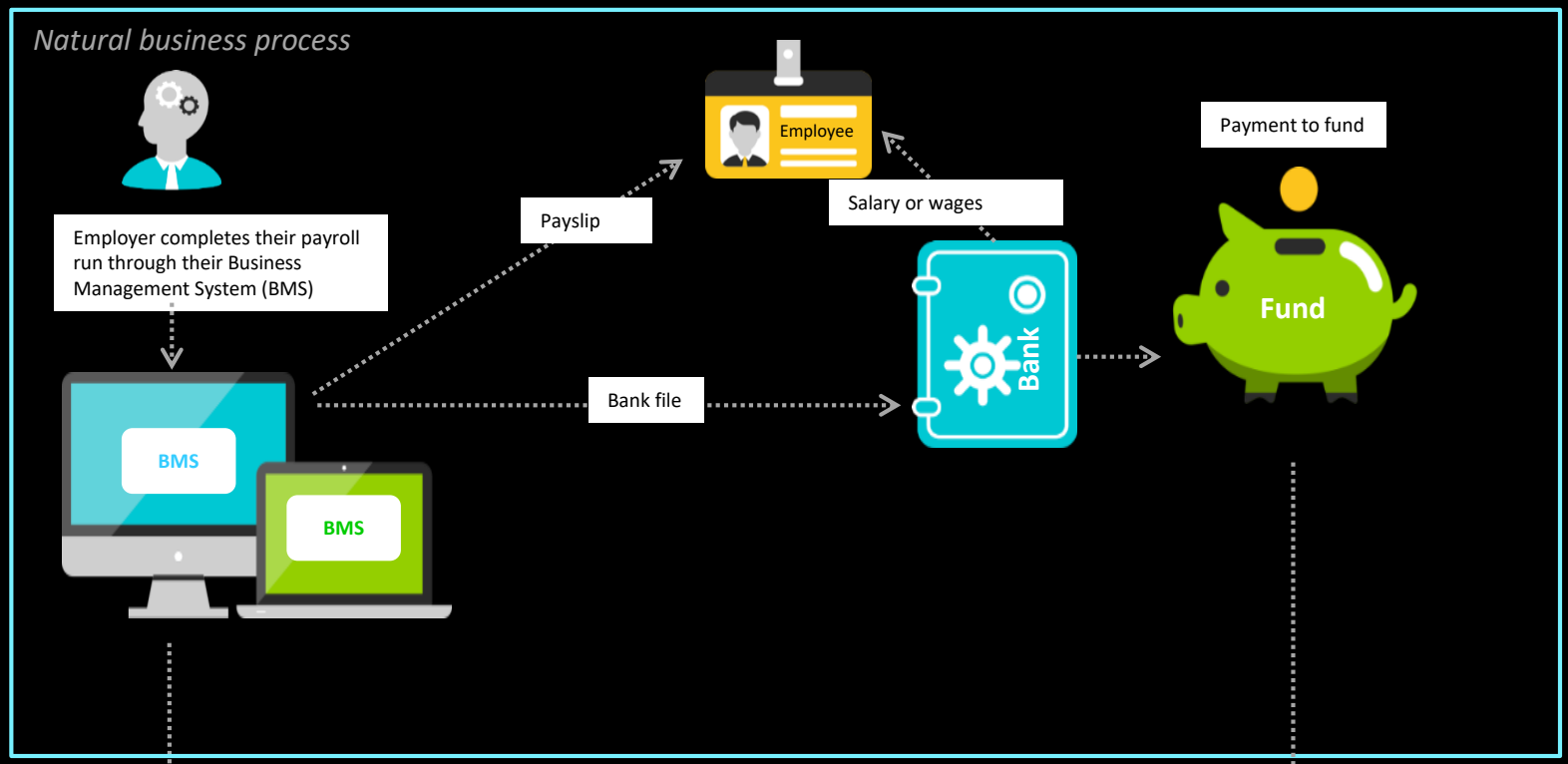
What and how often do I have to report?

At the same time you pay your employees.

What won't I have to do if I report through Single Touch Payroll?

Employers may not need to provide the ATO with an end of year payment summary.

Single Touch Payroll



Employee Commencement

Employers will have the option to invite new employees to complete their Tax file number declaration and Superannuation standard choice forms online.

**currently being designed*

Pay event submission

- Salary or wage information
- Tax withheld
- Super Guarantee liability

Tax and super information is sent to the ATO through Standard Business Reporting 2 (SBR2) every pay day.

SBR

ato

Member Contribution Report

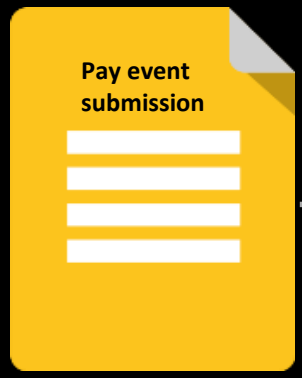
Employer information:

- Employee information
- Superannuation contribution

Super contribution amounts reported to the ATO by the super fund.

Single Touch Payroll

Where will my information be distributed?



Information will be pre-filled into myTax

Employees will be able to view their tax and super information

Prefilled W1 and W2 Labels

*timing to be confirmed

Information reported through STP will be displayed in the Tax Agent and Business Portals

Sharing of data with other Commonwealth agencies

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Single Touch Payroll

Corrections

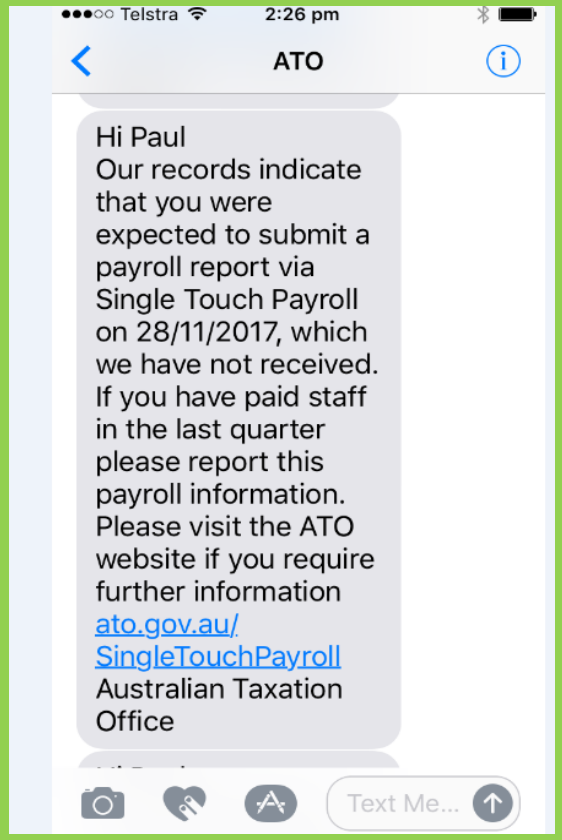
Must report within 14 days of detection

Report at next pay cycle

Report as an ‘update event’

Single Touch Payroll

A whole new world



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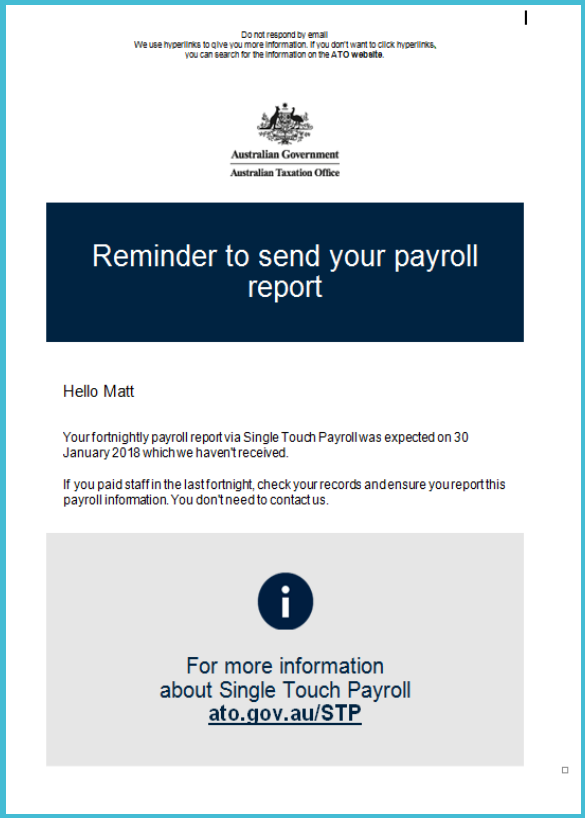

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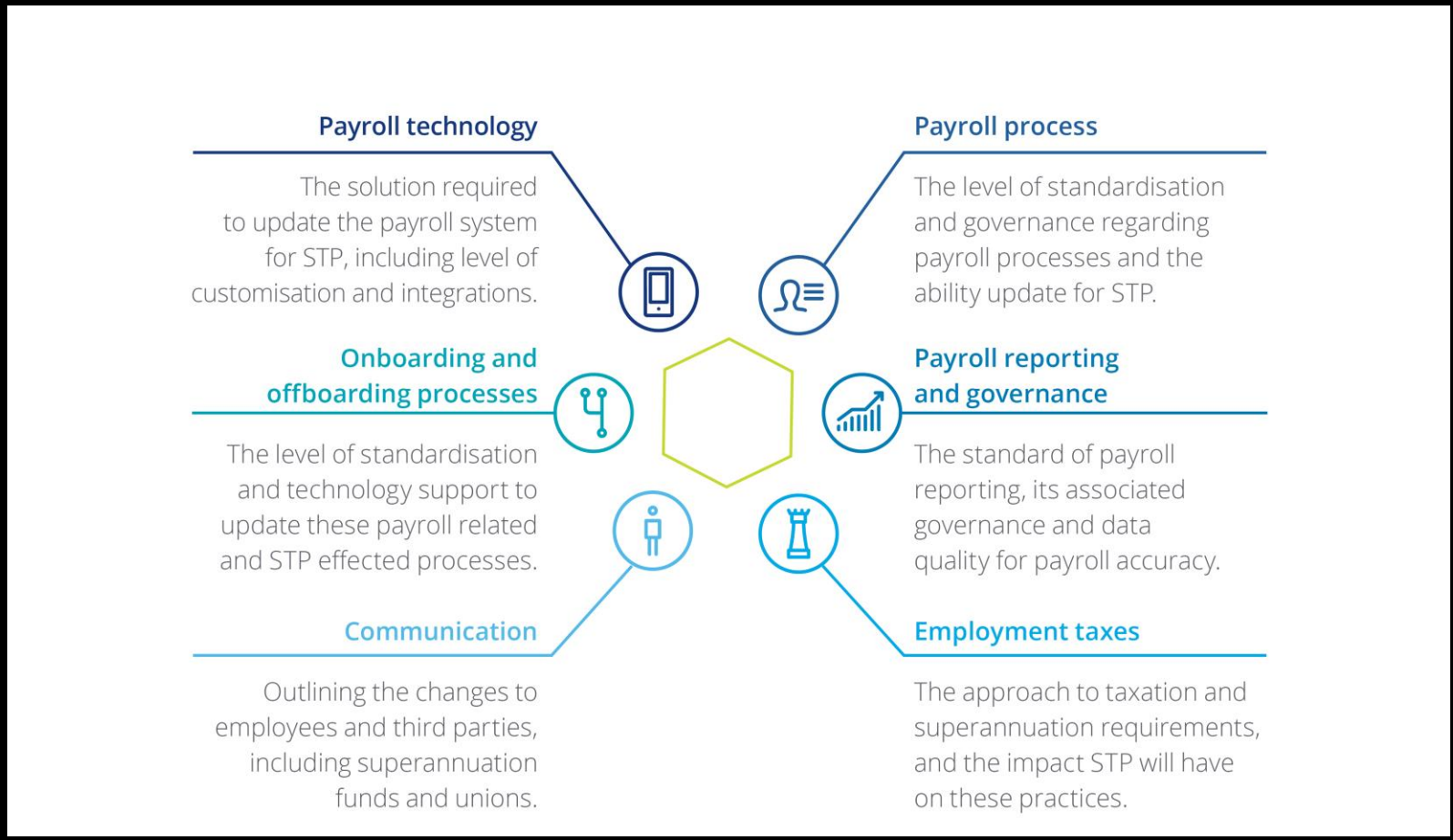
Single Touch Payroll

Deloitte approach



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