

What constitutes a Car Fringe Benefit?

A car fringe benefit arises when an employer provides a vehicle to an employee (or associate) for their private use. The car must be provided in respect of the employee's employment, and must be "held" by the employer, or an associate of the employer. That is, the employer or its associate must either own (either outright or by way of hire purchase arrangement) or lease the car.

It is worth noting that vehicles designed to carry a load of greater than 1 tonne are deemed to be used 100% for business (eg: vehicles more akin to trucks) therefore are not subject to car fringe benefits.

How is the Taxable Value of Car Fringe Benefits calculated?

The taxable value of a car fringe benefit can be determined one of two ways, as follows:

1. Operating Cost method

The taxable value is determined with reference to:

- The actual costs incurred in operating the vehicle (operating costs), which include:
 - Petrol, registration, CTP insurance, comprehensive insurance, repairs and maintenance costs, and
 - Where the vehicle is owned (either outright or subject to hire purchase arrangement), depreciation and imputed interest
 - Where the vehicle is leased, the monthly leasing costs
- Business usage as determined by a log book. If a log book is not maintained the business use is considered to be zero, and
- Any recipient contribution
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Where depreciation is relevant, the depreciation rate used in car fringe benefit calculations under this method is currently either 18.75% or 25% per annum, depending on the date the car was acquired. The calculations are performed on a diminishing value basis and take into account the number of days the car was held during the year. It is important to note that depreciation cost limits do not apply in these calculations therefore depreciation calculated for fringe benefits purposes may differ from that determined for tax deduction purposes.

Where imputed interest is relevant, the imputed interest rate is currently 5.85%. As with the depreciation calculations, imputed interest calculations take into account the opening depreciated value and the number of days during the year that the car was held.

2. Statutory method

The taxable value is determined with reference to:

- The "base value" of the vehicle,
- The number of days the vehicle was available for private use, and
- A statutory rate, which is determined by the annualised number of kilometres travelled. The higher the mileage, the lower the statutory rate as it is assumed business use increases as mileage increases, as demonstrated by the following table (applicable 10 May 2011 to 31 March 2012)¹:

Annualised kilometres	Statutory fraction
< 15,000	0.20
15,000 – 24,999	0.20
25,000 – 40,000	0.14
> 40,000	0.10

- Any recipient contribution

¹ Statutory fraction will progressively move to a single flat rate of 0.20 by 1 April 2014

The “base value” of the vehicle is essentially the cost price of the vehicle where owned or under hire purchase contract, or the leased car value where leased. This includes not only the base price but the likes of dealer delivery charges and accessories fitted. The base value is determined on a GST-inclusive basis, and includes any luxury

car tax paid. Finally, the base value is reduced by a third once the car has been held for more than 4 years since the beginning of the FBT year.

Employers can choose the method which returns the lowest FBT liability, and can switch between methods from one year to the next.

Example

Mr B is an employee of Company A. His agreed salary package is \$100,000 in salary and private use of a company car. The company car has a base value of \$60,000, has annual operating costs of \$10,000, and has an annual mileage of 50,000 kms. The vehicle is used 60% for business purposes substantiated by a log book, and Mr B does not contribute to the running costs. Company A is registered for GST. The FBT liability is calculated as follows:

	Operating Cost method	Statutory method
Taxable Value	$(\$10,000 \times 40\%) - 0 = \$4,000$	$\$60,000 \times 0.07 \times 365/365 = \$4,200$
Taxable Amount¹	$\$4,000 \times 2.0647 = \$8,259$	$\$4,200 \times 2.0647 = \$8,672$
FBT¹	$\$8,259 \times 46.5\% = 3,840.44$	$\$8,672 \times 46.5\% = \$4,032.48$

¹ Refer fact sheet “Fringe Benefits Tax” for further explanation of these calculations

As Company A can choose the most tax optimal method for calculating its FBT liability, it can choose the FBT liability of \$3,840.44 arising under the operating cost method. Company A claims a tax deduction for all operating costs and the FBT liability.

What Next?

If you are in business, contact your manager or partner at Isaacs & Cole to discuss how Car Fringe Benefits potentially impacts your business.

Disclaimer: The information contained in this fact sheet is not intended as specific advice. Please contact Isaacs & Cole to discuss your individual situation.