HOW THE ATO IDENTIFIES **POTENTIAL FBT AUDITS**

The table below outlines the key tax return labels that can alert the ATO that an employer may have some FBT exposure.

DISCLOSURE ITEM / RETURN LABEL	FBT RISK
Fringe benefit employee contributions Item 6, Label I of the 'C Return' Item 46, Label T of the 'T Return'	The disclosure of income at this label confirms that a benefit has been provided to an employee. This may prompt the ATO to check if an FBT Return was lodged and, if not, to query whether a return was required to be lodged*.
Contractor, sub-contractor and commission expenses Item 6, Label C of the 'C Return' Item 5, Label C of the 'T Return'	Reporting an amount at this label may prompt the ATO to investigate whether the employer has understated its FBT liability with regards to any fringe benefits provided to an employee it has incorrectly treated as an independent contractor.
Motor vehicle expenses Item 6, Label Y of the 'C Return' Item 5, Label L of the 'T Return'	Reporting an amount at this label suggests that the employer may be providing some type of car- related fringe benefits. This may prompt the ATO to check whether an FBT return was lodged. If not, the ATO may investigate whether a return is required.
Superannuation expenses Item 6, Label D of the 'C Return' Item 5, Label D of the 'T Return'	The disclosure of expenses at this label means that the business has one or more employees. The ATO may query whether benefits have been provided to employees and, if so, to check if they have been dealt with correctly for FBT purposes
Total salary and wages expenses Item 8, Label D of the 'C Return' Item 44, Label L of the 'T Return'	The disclosure of expenses at this label means that the business has one or more employees. The ATO may query whether benefits have been provided to employees and, if so, to check if they have been dealt with correctly for FBT purposes

*It is important to note that when an employee contribution has been declared it does not mean that an employer is required to lodge an FBT return. An FBT return is only required when an FBT liability arises, but it can be lodged as NIL to limit the ATO audit period to 3 years.

The above table shows the tax return labels that alert the ATO that a business may have some FBT exposure, this is merely the starting point when the ATO conducts a review. The next step the ATO will generally take is to obtain a copy of the employer's financial statements.

The following table outlines some of the common expense codes that the ATO will review:

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EXPENSE ACCOUNT	FBT RISK
Employee / Staff Amenities Employees typically provide staff with tea, coffee, milk, biscuits, etc. to consume at work. Such amenities are exempt from FBT where they are provided on a working day and consumed on business premises	In addition to food and drink provided on business premises, many employers will treat items that can be categorized as entertainment, such as year-end / Christmas functions held off business premises. Gifts given to employees are also commonly treated as employee amenities. It is important to note that FBT can apply to any employee gifts and gifts in the nature of entertainment (e.g. movie or theatre tickets)
Advertising & Promotional Expenses To boost business recognition and enhance their reputation, many businesses will sponsor events. Where this sponsorship solely provides advertising benefits (e.g. signage and advertising rights) no FBT Issues will arise.	Where the FBT risks arises is when a sponsorship package includes the provision of other benefits that may be passed on to employees, such as food and drink or recreation. This is a frequent practice when the sponsored event includes access to a corporate box function.
Travelling Expenses Covering the cost for employees to undertake genuine business-related travel is not only fair, but completely reasonable. Further, the ATO has guidelines to allow employees to be compensated via a travel allowance to streamline the process to compensate employees that are required to travel for work purposes.	A potential FBT risk with business travel is when an employee extends their travel for private reasons, e.g. tacking on a few more nights at the end of a business conference. Another risk is when an employee's associates (e.g. family) join them for the duration of the travel.
Donations General donations made to deductible gift recipients (DGR) are no issue at from an FBT perspective.	On the other hand, Donations related to fundraising events can pose an FBT risk where other benefits may be passed to an employee, commonly entertainment. For example, an employer may book one or more tables at a fundraising dinner that is attended by employees, their spouses and others. The provision of the meal will give rise to a meal entertainment benefit.
Motor Vehicle Expenses Motor vehicles are a common benefit provided to employees. Where a car is made available for an employee's private use there will be no FBT if an 'Employee Contribution' is received from their after-tax income.	For owned vehicles, the biggest mistake made by employers when working out the Employee Contributions required is to use the written down value according to the financial statements to work out notional depreciation and notional interest. For example, when using the operating cost method to determine the taxable value of a car benefit, a notional depreciation charge must be brought to account. If, however, the business is eligible for accelerated depreciation then relying on the car's value as per the financial statements will result in an insufficient employee contribution being calculated. This will then result in an FBT liability and possibly ATO penalties.
Motor Vehicle Expenses (Workhorse Vehicles) Motor vehicles that are not principally designed to carry passengers, such as dual cabs and panel vans, are exempt from the general FBT treatment of cars where any private use is minor and incidental to business travel. These cars are often referred to as Workhorse Vehicles.	The ATO has released new safe harbour guidelines that outline what is minor and incidental travel. We have reported on these safe harbours separately in the FBT20 – FBT Flyer on Workhorse Vehicles. Another common mistake with workhorse vehicles is not getting the employees to complete the required documentation to satisfy the FBT exemption. In addition, it is important to understand the distinction between a car and a non-car. The rules for exemption and FBT valuation options differ for both.
Employee Loans Providing loans to employees will not automatically give rise to an FBT liability.	However, FBT may apply where the loan has been provided for a Nil or very low interest rate.

As part of an FBT review, the ATO can also access other databases to ensure that employers are compliant. One example of this is accessing state government records to confirm all motor vehicles registered in the purchases by an employer and ensuring that these are properly accounted for in both the financial statements and from an FBT point of view.

Given the ever-improving tools at the ATO's disposal, in conjunction with the government's need to raise additional revenues, it is important that employers ensure they remain compliant with their FBT requirements. The ATO has signalled that there will be an increased focus on FBT this year so if you would like to ensure your business is compliant, please contact your advisor at Hill Accounting Services as soon as possible.

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