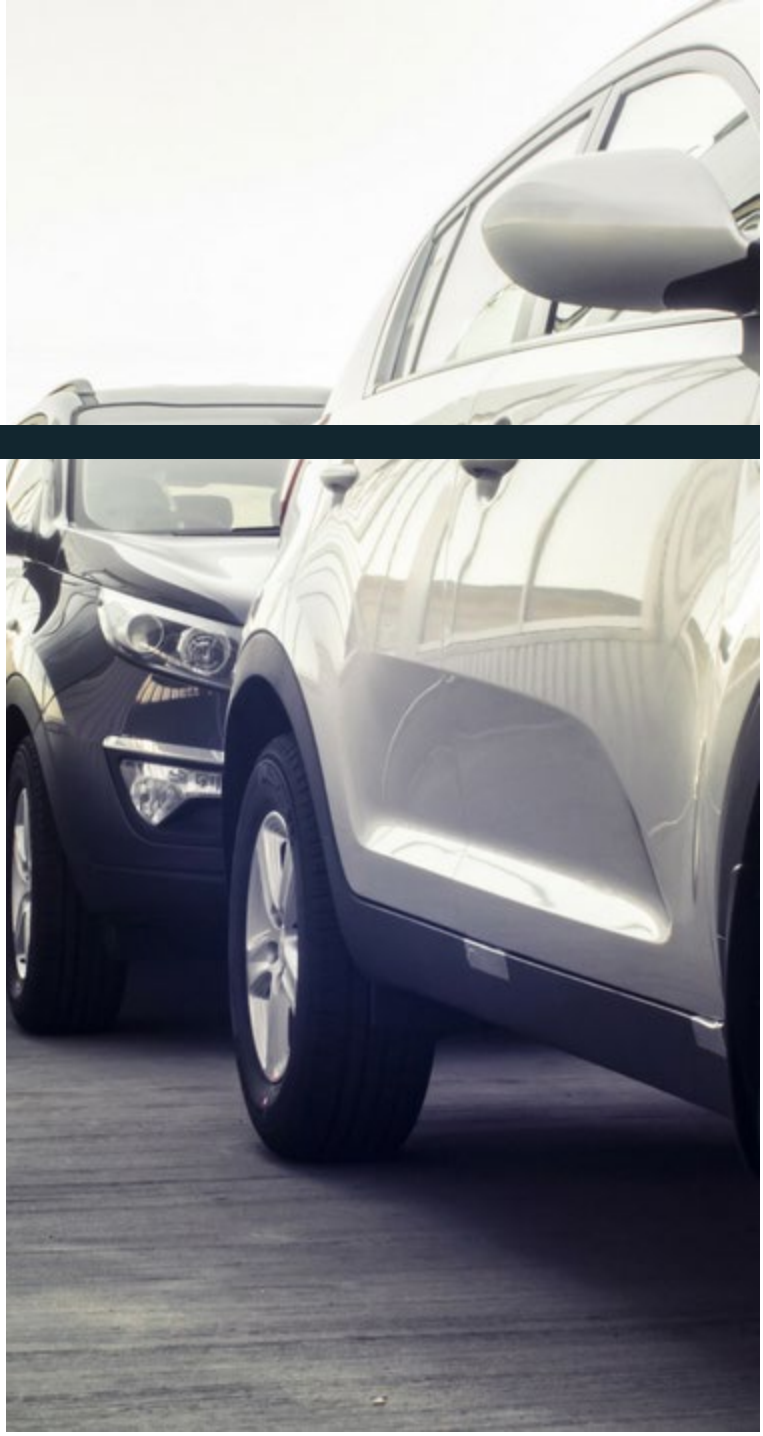
WHAT IS A CAR FRINGE BENEFIT?



A car fringe benefit commonly arises when an employer makes a car they own or lease available for the private use of an employee. If you conduct your business through a company or trust, you may be an employee of the company or a trust.

A car is made available for private use by an employee on any day the car:

- is used for private purposes by the employee or associate; or
- is not at your premises, and the employee is permitted to use it for private purposes; or
- is garaged at their place of residence, regardless of whether they have permission to use it privately.

CALCULATING THE **TAXABLE VALUE**

You can calculate the taxable value of a car fringe benefit using either the **statutory formula method** or **operating cost** method.

STATUTORY FORMULA METHOD

The **taxable value** is calculated by applying a statutory formula percentage to the base value cost of the car at the date of purchase or lease.

Your liability is reduced by the number of days the car was not available for private use, and any employee contributions made towards the running and maintenance costs of the car from their after-tax salary (commonly known as unreimbursed car expenses).

Statutory Formula.

$$\textit{base value of car} \times \textit{statutory fraction \%} \times \frac{\textit{no. days of private use}}{\textit{365 or 366 days of FBT year}} - \textit{costs paid by the employee}$$

Base Value. If you've owned the car for less than 4 years when the FBT year began, the base value is the original cost price of the car, or ⅔ of the cost price if owned for more than 4 full years. A car first owned prior to 1 April 2018 (and on or after 1 April 2017) will be eligible to the 2/3 base value.

Cost price. The original purchase price including GST and luxury car tax but excluding, stamp duty, registration, acquisition costs such as delivery and non-business accessories like paint, fabric and rust protection or window tinting.

Statutory Fractions. From 1 April 2014, there's been a flat rate of 20% applied regardless of how many km's were travelled in the FBT year, except where there is a

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pre-existing commitment in place before 7:30pm, 10 May 2011.

Table of statutory fractions for pre-existing commitments. **(CONSIDER REMOVING THIS TABLE)**

TOTAL KM'S TRAVELLED IN FBT YEAR	STATUTORY FRACTION %				
	Prior to 10.5.2011	From 10.5.2011	1.04.2012	1.04.2013	1.04.2014
0 - 14,999	26	20	20	20	20
15,000 - 24,999	20	20	20	20	20
25,000 - 40,000	11	14	17	20	20
Over 40,000	7	10	13	17	20

OPERATING COST METHOD

The **taxable value** is based on the private usage proportion of the total costs of either owing or leasing and operating a car during the FBT year less any employee contributions.

Operating Cost Formula

total operating costs X *business use %* — *costs paid by the employee*

Operating costs. Includes actual costs such as running costs (repairs, maintenance, fuel, registration and insurance), charging costs for EV's and:

- deemed costs such as depreciation and interest if the car is owned; or.
- leasing costs if the car is leased.

For cars owned by the employer, *deemed depreciation* is calculated by multiplying the depreciated value of the car at the start of the FBT year by the deemed depreciation rate applied at the time the car was purchased. *Deemed interest* is calculated by multiplying the depreciation value of the car by the statutory FBT benchmark interest rate of 4.52% for 2023.

Logbooks. A logbook must be maintained for a continuous 12-week period to represent the use for the full FBT year and to determine the applicable business percentage of a car. Each logbook you keep is valid for five years, but you are required to start a new logbook at any time if the pattern of use has changed more than 10%.

An employer can use the operating cost method for a year where a logbook hasn't been maintained, however the employer must estimate the business use for that year.

Private use. Generally, any use of the car that is not for income-producing purposes such as travel to and from work is normally private use, even where the employee undertakes minor errands like collecting the mail.

Employee contribution. Any unreimbursed car expenses incurred, or after-tax contribution made by the employee can reduce the taxable value of a car fringe benefit under the operating cost method, as illustrated.

EXEMPT **CAR BENEFITS**

WORK RELATED TRAVEL IN COMMERCIAL CARS

A motor vehicle benefit will be exempt where the vehicle is a taxi, panel van, utility or other road vehicle designed to carry a load, other than passengers of less than one tonne, and the employee's private use is limited to incidental or minor. The benefit of these vehicles is that travel between home and work is considered work-related.

CARS USED FOR EMERGENCY SERVICES

Cars used for emergency services which are garaged or kept at or near an employee's residence are exempt car benefits, where the car used is a police, ambulance or firefighting services vehicle; is fitted with flashing warning lights and a siren and has exterior markings which indicate its use.

CARS SUPPLIED BY PERSONAL ENTITIES

A personal service entity is unable to deduct car expenses from more than one car used by an individual. The second car benefits are exempt in relation to an FBT year. ** (S8(4) FTBAA and S86-70 ITAA)*

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For further information, contact our office today:

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