

**February 2018**

## **Motor Vehicles and Fringe Benefits Tax...**

*With the 2018 FBT year-end nearing, it's time to look at the single largest FBT revenue generator and biggest FBT cost and area of FBT risk to business...*

### **What's important?**

Motor vehicles represent the biggest FBT revenue generator for the Government, and therefore the biggest FBT cost for employers. With recent ATO announcements on Logbook compliance and safe harbour rules for claiming Exemption, together with increased ATO focus – in this edition of FBT Talk we focus on the key issues in preparation for the 2018 FBT reporting season.

From an employer perspective, motor vehicles represent the most significant risk in respect of:

1. Tool of Trade or Work-Related vehicles; and
2. Use of Logbook method

### **Tool of Trade or Work-Related vehicles**

In our December FBT Talk Alert, we discussed the ATO's safe harbour PCG initiative in relation to claiming the exemption. In our view, the PCG squarely focusses the FBT spotlight on organisations claiming an FBT exemption on Tool of Trade or Work-Related Vehicles.

Whilst it is a draft document, the PCG gives a strong indication of the ATO expectations for claiming the exemption, and is giving employers a lot to think about regarding whether they are sitting safely in the harbour or floating precariously out to sea!

For employers in the latter category, it is important to examine what the implications might be of incorrectly claiming an exemption and what can be done to start sailing towards the safe harbour under full steam!

Some of the implications of getting the exemption wrong include:

1. *The financial impact of past FBT liabilities, penalties and interest;*
2. *The employee impact of their employer understating the individual employee reportable fringe benefits amounts on the employee Payment Summary;*
3. *Understated payroll tax reporting and liabilities; and*
4. *A missed opportunity to maintain Logbook records and therefore requirement to revert to Statutory Formula Method (otherwise known as maximum FBT method).*

## What can an employer do?

To manage compliance with the exemptions, we recommend the following:

1. Providing written policies detailing vehicle usage and expectations;
2. Written agreements with employees;
3. Undertaking spot checks on usage;
4. Record keeping methods including use of logbooks;
5. Training and education on why policies and record keeping are important; and
6. If necessary, acceptance that exemption is not available. If this is the case, then consider use of Logbooks to minimise the FBT liabilities.

## What are the challenges with the PCG safe harbour initiatives?

Firstly, the PCG is in draft format, so therefore is subject to change. Comments closed on 9 February and the ATO haven't given a timeline for finalisation.

Secondly, we find it difficult to see how employers can confidently meet the exemption criteria without making their employees complete logbooks – we actually question if that is really the end game that the ATO are looking for – ie. logbooks to evidence or deny exemption.

The PCG requires employers to take all reasonable steps to limit the private use of the vehicle and have measures in place to monitor such use.

The “allowed” private usage is where the employee travels between their home and their place of work and:

- any diversion adds no more than two kilometres to the ordinary length of that trip;
- no more than 750 kilometres in total for each FBT year for multiple journeys taken for a wholly private purpose, and
- no single, return journey for a wholly private purpose exceeds 200 kilometres.

There is a lot at stake here because the ATO have shined the spotlight on an area that has traditionally been confusing and full of uncertainty. The FBT risk is undoubtedly high due to the potential underlying value of the benefit and the potential reportable fringe benefit implications.

From a business perspective, if compliance is to be achieved, changes will undoubtedly be required in many organisations - including policy and cultural changes.

Alternatively, acceptance that the exemptions are not available will require use of Statutory Formula or Operating Costs methods – each of which have their own compliance challenges.

## Use of Logbook method

Getting employees to maintain logbooks (manually) is an outdated and frustrating exercise – both for your employees and internal staff managing the process.

In our recent 2017 FBT Return Survey report we highlighted that:

1. 44% of logbooks are **HANDWRITTEN** – yes that's "write", handwritten; and
2. 19% of logbooks are prepared using excel spreadsheet.

For a tax document that is relied upon to reduce the taxable value of a benefit, we question the use of such manual methods. We have been engaged to review manual logbooks on many occasions, and it has generally been a frustrating exercise trying to find the "good" in the logbook.

It's much better to employ Logbook technology to manage the process – why?

1. It might cost a bit more in the initial outlay but there is a saving in the employee's time spent completing logbooks and someone reviewing the logbooks – yes, the logbooks should be reviewed;
2. It gets the job done with minimal human interaction;
3. There is a significant reduction in risk; and
4. There is a general acceptance (expectation) that technology should be employed.

## Logbook quality

In our experience, logbooks fall in to one of four quality categories:

- A. Non-existent – substituted by an employee email or declaration stating that the logbook business use is 97%;
- B. Prepared but incomplete in so far as odometer readings;
- C. Prepared but without any description of business purpose or reason for business journeys; and
- D. Compliant logbooks.

Categories A, B and C above are not acceptable.

## FBT Review / Audits – what happens

In the event of an ATO FBT Review or FBT Audit, the ATO will scrutinise the logbook records closely including:

- a. Employing technology to assess when the handwritten logbook was completed;
- b. Cross-checking journeys to e-tag / toll records
- c. Cross-checking logbook records to car service records; and
- d. Comparing private usage against expected private usage.

## The Logbook Myth – set and forget

The FBT law requires employers to estimate the business use % each non-logbook year – so that means all years except the year the logbook is prepared.

*Does that mean we can't rollover the business use % established in year 1 of the logbook?*

Correct. Once a logbook has been prepared (and should be reviewed for compliance) employers cannot “set and forget” the business use % established. Employers must revisit the business use % each year based on odometer records.

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## What's next on FBT Talk

In our next FBT Talk, we will be discussing all things FBT & Car Parking.

If you are looking for FBT assistance, FBT Solutions is Australia's only dedicated FBT practice offering end-to-end FBT and Salary Packaging services including:

- FBT Return Outsource and Lodgement
- FBT Return Review and Lodgement
- FBT and Salary Packaging Advisory and Consulting
- Managing FBT Audits
- Car Parking Valuation
- Automated Logbook and Car Parking Register
- Training on FBT and Salary Packaging
- Salary Packaging Outsource

Please let us know if you would like your colleagues or others added to our FBT Talk & FBT Alerts distribution list.

Additionally, we are running full day 2018 FBT workshops in March 2018, providing you and your team with the knowledge and tools to efficiently and effectively prepare the 2018 FBT return. The locations and dates for the workshops are as follows:

1. Brisbane: Wednesday 7 March 2018 [Find out more](#)
2. Melbourne: Tuesday 13 March 2018 [Find out more](#)
3. Perth: Thursday 15 March 2018 [Find out more](#)
4. Canberra: Tuesday 20 March 2018 [Find out more](#)
5. Sydney: Thursday 22 March 2018 [Find out more](#)

If you wish to discuss anything further in relation to FBT, please reach out to our office on 02 8079 2924 or contact our team directly at [info@fbtsolutions.com.au](mailto:info@fbtsolutions.com.au).