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Tax

Tax Update

FBT year-end reporting – car operating costs

What do you include in your FBT year end reporting to clients for the operating costs of cars? Perhaps you report the amounts you have charged to the client during the year? Or perhaps it's the costs you have incurred in relation to the car for the year? There are usually differences between these two amounts, pending reconciliations at various times. So what information is it that your clients need?

Where an employer wishes to use the 'operating cost method' to value a car fringe benefit, they will need to know the operating costs of the car for the FBT year, as defined in the FBT legislation. For leased cars, the operating costs consist of the following:

- include registration and insurance costs attributable to the year and other car expenses incurred during the year - whether the expenses are incurred by the provider or by any other person;
- do not include any car expenses incurred by a lessor pursuant to the lease agreement (ie. costs relating to a fully maintained lease); and
- include the lease charges payable in relation to the holding period.

For leases that are not fully maintained, amounts charged to clients may initially be based on estimated costs, with subsequent reconciliations to actual costs. This means the costs required for an employer to value a car fringe benefit under the operating cost method, will not necessarily match the amounts charged to the client in that period.

Where the costs were initially overestimated, in a subsequent year the client may be charged a much smaller amount that the costs actually incurred during that period, or in fact, may even receive a refund. In this scenario, if the client then uses the amounts charged to them as the operating costs of the car, they will end up overpaying FBT in the initial year and underpaying FBT in the subsequent year. This also has a flow on effect to the amounts reported on the relevant employees' payment summaries.

Anecdotal evidence suggests that some leasing companies only report to their clients the amounts they have charged to the client each year. Whilst the FBT might all 'net out in the wash', the impact of reportable fringe benefits may not.
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In order to support your clients in reporting the correct FBT and reportable fringe benefits each year, and not expose them to potential penalties, where they wish to use the operating cost method for leased cars that are not fully maintained, ensure you report **costs incurred**, rather than, or as well as, **costs charged** to the client for the relevant FBT year.

Novated lease insurances

We have highlighted previously, the treatment of insurances offered in conjunction with novated leases. It is perhaps timely to revisit this issue, with anecdotal evidence that arrangements at risk of incurring additional unplanned FBT continue in the marketplace.

In the ATO's view, insurances associated with cars, other than comprehensive insurance, such as redundancy insurance, do not meet the definition of 'car expenses' for FBT purposes. This is because they are not considered to be 'in respect of the car', but in respect of other matters. This then means they are not exempt from FBT when provided in conjunction with a car fringe benefit - whereas 'car expenses', including comprehensive insurance, are exempt in this situation. Insurances that constitute the provision of a separate fringe benefit are therefore likely to attract FBT in addition to any FBT on the car fringe benefit.

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Novated lease insurances continued

However, if the cost of these insurances is ‘bundled’ or ‘capitalised’ into the lease for the car, ie. the total premiums for the lease term are added to the amount subject to finance, such that the premiums are not payable separately, but covered by the lease payments, then the insurance becomes a part of the provision of the car through the lease and is not treated as a separate fringe benefit. This was confirmed by the ATO in Class Ruling CR 2014/73.

Therefore, when insurance premiums are bundled/capitalised into the lease:

- under the statutory formula method, there should be no separate FBT on the insurance; and
- under the operating cost method, there will be FBT on the lease payments that include the insurance premiums, but reduced by any business use percentage.

Where insurance premiums are not bundled/capitalised into the lease, other than for comprehensive insurance, there will likely be FBT to pay in relation to those premiums.

Car base value 1/3rd reductions

Some salary packaging providers and leasing companies have been using a factor of 0.66 to determine the reduced base value of cars that have been held by an employer for more than 4 years at the start of the FBT year. The factor to be applied in accordance with the FBT legislation is 2/3 and using a rounded off figure of 0.66 causes employers to overstate the taxable value of cars (prior to recipients’ payments) under the statutory formula method. This might seem small, but can become significant over a large number of cars, and can be important to employees who might be making contributions to eliminate the taxable value or may have a reportable fringe benefit for the car on their payment summary at the end of the year.

Car depreciation limit

The car limit for income tax depreciation purposes is $57,581 for the 2017-18 income year (unchanged from 2016-17)

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