

FBT: Employee contributions on car fringe benefits

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How much should dealers collect?

With the recent completion of Fringe Benefits Tax (FBT) returns for the 2009 year, it has come to our attention that many dealers are not collecting the appropriate contributions from their employees, resulting in excessive “vehicle benefits” FBT liabilities. Unfortunately, we identified many cases where contributions obtained from employees toward these benefits, are not enough to cover the FBT bill payable by the dealership.

With a tax rate of 46.5%, FBT can be a significant cost to the dealership. A prudent strategy to reduce the effect of this cost to the business is to use employee contributions (usually amounts withheld from their after-tax salary) to offset this cost.

Broadly speaking, obtaining 10% contributions of the “average car value” (for each pool), will mean that the FBT paid is fully funded by the employee. An example of this is as follows:

	Average car value in pool = \$20,000
FBT taxable value: 20% (before contributions)	\$4,000
Employee contribution: 10%	\$2,000 (\$38.46 per week)
Net taxable value	\$2,000
FBT gross-up (x 2.0647)	\$4,129
FBT payable: 46.5%	\$1,920

Therefore, the FBT payable of \$1,920 is covered by the employee contributions of \$2,000.

Following on from that example, where you have a demonstrator pool with an average vehicle value of \$30,000, the required after tax contribution would be \$3,000 (\$57.69 per week). If you have a used vehicle pool with an average vehicle value of \$15,000, the required contribution would be \$1,500 (\$28.85 per week).

Please note that employee contributions are presented as GST inclusive, and you should ensure that you are remitting 1/11th of these contributions to the ATO on your dealership’s Business Activity Statements.

We remind you that a “total cost of employment” approach should be applied when assessing the total value paid for personnel (which includes FBT). **In this regard, given that FBT returns have only recently been completed for 2009, now is the time to revisit (and if necessary, adjust) your employee contribution arrangements to ensure your exposure is covered by employee contributions.**

Should you wish to discuss this matter further, please contact one of our Fordham Motor Dealer Services Directors:

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