

HR & Tax Alert



Quality In Everything We Do

Australia: Federal Authorities target Fringe Benefit Tax reporting

May 2006

Executive Summary

Historically Fringe Benefits Tax (FBT) has been viewed by businesses as a relatively low profile, process driven tax. Now however the Federal Government is committing more resources to ensuring that businesses are complying with their FBT obligations and are launching an increasing number of FBT audits. FBT returns for the year ended 31 March 2006 must be filed by 21 May 2006, and any outstanding liabilities paid by the same date.

In anticipation of the upcoming deadline this Alert highlights some areas that companies should be aware of during the preparation and filing of their FBT returns for the year ended 31 March 2006.

Importance of Consistent Reporting

Where there is an interaction between FBT and other taxes or employer obligations, it is vital that reporting is consistent. The Australian Taxation Office (ATO) data matches income tax returns with FBT returns, Pay As You Go (PAYG) Payment Summaries and Business Activity Statements (BAS) to determine targets for audit. Common discrepancies include:

- Car benefits being disclosed on the income tax return but not on the FBT return;
- Filing an FBT return but not disclosing reportable fringe benefits on employee Payment Summaries;

- Disclosing employee contributions on the FBT return but non-disclosure on the income tax return and BAS.

Recently the ATO has also announced that the reporting of car benefits will be monitored more closely using a new program which will match car registrations with employer records.

Living Away From Home Allowances (LAFHA)

There are a number of FBT exemptions available for food allowances paid to individuals who satisfy the criteria for 'Living Away from Home'. One of the conditions that must be met is that a signed LAFHA declaration must have been obtained from the individual in question before filing the FBT return, or the employer cannot claim the LAFHA exemption. The declaration needs to be signed annually and retained on the FBT file.

With respect to reporting benefits provided to expatriate employees, companies should ensure that all benefits provided have been captured, irrespective of whether they are on the Australian or foreign pay-roll.

Treatment of Goods and Services Tax (GST)

Fringe benefits should always be reported inclusive of GST. Therefore employers need to add back any applicable GST if extracting information from a balance sheet or profit and loss statement.

It is important that the correct FBT gross up rate is used in reporting benefits. The higher gross up rate (2.1292%) must be used where the employer is **entitled** to claim **any** input tax credits, irrespective of whether the GST credit has been claimed.

Only where no input tax can be reclaimed can the lower gross up rate (1.9417%) be used. The ATO has indicated that it will target employers who have a high proportion of benefits grossed up at the lower rate.

Entertainment Expenses

To ensure complete and accurate entertainment expenses are captured for FBT purposes, conference costs, sales and marketing expenditure and promotional accounts should be reviewed for any entertainment expenses in addition to those shown in the company expense reports.

For further information please contact your local Ernst & Young Human Capital professional, or in Australia:

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Other Points to Consider:

- Benefits provided to employees as part of a termination agreement are eligible termination payments and not fringe benefits. These amounts are subject to income tax and should not be disclosed in the FBT return.
- If an employee travels for work, they are required to provide a travel diary to their employer before the FBT return is filed. However this only applies to domestic travel that is not exclusively work related and which exceeds 5 nights and international travel which exceeds 5 nights.
- Relevant documentation should be retained for five years to support all amounts disclosed in the FBT return and substantiate FBT calculations.

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