

Practice Update

Please read this update and contact this office if you have any queries

MARCH 2003

2003 FBT Update

Editor: FBT returns are due soon as the FBT year draws to a close on 31 March. Clients who have provided benefits to employees such as cars, entertainment, etc., should prepare documentation for the FBT return and contact our office.

2003 FBT Rate

The FBT rate of tax for the year ended 31 March 2003 is 48.5%.

FBT and GST

The taxable value of a fringe benefit, which was subject to GST, is always calculated on the GST inclusive cost of the benefit to the employer/provider.

This is regardless of whether or not the employer was entitled to an input tax credit in respect of the acquisition of the fringe benefit.

Two FBT gross-up rates

Two separate gross-up rates apply to fringe benefits that are provided to employees. The gross-up rates are as follows:

Type 1 benefits

- ◆ These arise where the employer was entitled to an input tax credit on the fringe benefit.

Gross-up rate 2.1292

Type 2 benefits

- ◆ These arise where the employer was not entitled to an input tax credit.

Gross-up rate 1.9417

Minor benefits exemption

Fringe benefits with a taxable value of less than \$100 are exempt from FBT if they are provided on an irregular and infrequent basis.

For a benefit to qualify for the S.58P exemption, the benefit must have a GST inclusive taxable value of less than \$100.

Car Benefits – Statutory Formula

Rather than using the operating cost method (which requires a log book), taxpayers can use the statutory formula which is based on the number of kilometres travelled in a year. The percentage is then basically applied to the cost of the car to work out the taxable value for the FBT year.

Annualised No. of Kms

Less than 15,000	26%
15,000 to 24,999	20%
25,000 to 40,000	11%
More than 40,000	7%

Vehicles other than cars – 2003 per km rates

The rates which are shown below only apply to vehicles that are not considered to be "cars" under the FBT Act.

Engine Capacity	2003 FBT per km rates
0 - 2,500cc	36 cents
2,501cc +	43 cents
Motorcycles	11 cents

An employer can only use the cents per kilometre valuation method where there is extensive business use of the vehicle. If there is not extensive business use of the vehicle, this valuation method cannot be used.

Other Rates

Car parking threshold

The car parking threshold is \$5.96.

Loan fringe benefits

The benchmark rate of interest is 6.05%.

Non-remote area housing – indexation factors

The following factors apply in calculating the taxable value of housing benefits provided to employees during the FBT year ending 31 March 2003.

State	Indexation factor
New South Wales	1.041
Victoria	1.027
Queensland	1.020
South Australia	1.029
Western Australia	1.018
Tasmania	1.023
Australian Capital Territory	1.052
Northern Territory	0.995

These factors may be applied to the previous year's housing values instead of working out a new market value for the year.

LAHA – Reasonable food component for 2003

The reasonable food component of a Living-away-from-home allowance ("LAHA") for expatriate employees for the 2003 FBT year are:

	per week
One adult	\$ 164
Two adults	\$ 263
Three adults	\$ 296
Two adults and one or two children	\$ 296
Two adults and three children	\$ 345
Three adults and one child	\$ 345
Three adults and two children	\$ 394
Four adults	\$ 394

An "adult" is defined as a person who is aged 12 years or more before the beginning of the FBT year. For larger families, add \$99 for each adult and \$49 for each additional child.

Tax Office issues warning about scheme shifting profits into super

A Taxpayer Alert has issued that warns the ATO is concerned about arrangements that attempt to avoid tax by shifting business profits into superannuation.

The Tax Commissioner said the arrangements were being promoted to small business owners and their self-managed superannuation funds.

Promoters of these schemes claim small business owners can use fixed trusts to distribute the profits of their business into self-managed super funds.

This is done to supposedly access the concessional tax rate of 15% on the distribution and at the same time avoid the age-based deduction limits and superannuation surcharge.

The ATO is examining these arrangements to see whether such distributions to a superannuation fund would be deemed to be 'special income' of the fund – and therefore taxed at the highest marginal rate of 47%.

Rental property mortgage insurance

Editor: Clients often call and ask whether mortgage insurance on a loan on a rental property can be claimed outright. The short answer is, no. This may be a timely reminder with 10,000 property audits heralded for this year.

Where a taxpayer has a rental property, mortgage insurance must not be claimed as a straight out insurance premium. It can only be claimed as a borrowing cost, normally over 5 years.

Donate to charities through your pay

The Tax Office has announced that it has completed a project under which it worked with the Australian Charities Fund (representing all charities) to create workplace giving programs.

This is a new, simple and convenient way for people to donate to charities on a long-term basis through their pay deductions. These programs can be implemented by employers using existing payroll systems.

At the end of the year, employers either note contributions on employees' payment summaries or provide some other form of written evidence to show donations made through their pay.

Please Note: Many of the comments in this publication are general in nature and anyone intending to apply the information to practical circumstances should seek professional advice to independently verify their interpretation and the information's applicability to their particular circumstances.