A fairer treatment for FBT on cars

The Government will make the tax system fairer by ensuring the fringe benefits tax exemption for cars is targeted to actual business use rather than including personal use.

This reform will remove the statutory formula method for both salary-sacrificed and employer-provided cars.

This ensures a more level playing field for all workers by removing a tax concession for the personal use of a salary-sacrificed or employer-provided car.

People who use their vehicle for work-related travel will still be able to use a log book to ensure their car fringe benefit excludes any business use.

Recent advances in technology, such as cheap and easy-to-use car log book ‘apps’, make this much easier today than when these rules were originally introduced in 1986.

Many of these apps will let the GPS on a smart phone do most of the work for you and let you send the results directly to your employer or tax agent — no calculations required.

The current system

Under the current car fringe benefits rules, a fringe benefit will arise where an employee is provided with a car for private use. A ‘car fringe benefit’ is valued using either the operating cost (‘log book’) method or the statutory formula method.

• Under the operating cost method, the car fringe benefit is the cost of running the car multiplied by the proportion of personal use of the car worked out by a log book.

• Under the statutory formula method, a person’s car fringe benefit is the cost of the car multiplied by 20 per cent, regardless of actual personal use of the car.

The statutory formula method provides a significant tax concession for taxpayers using their car fringe benefit mainly for private travel, because it assumes a significant proportion of the use will be for business purposes.

Making the tax system fairer

This reform will remove the statutory formula method for both salary-sacrificed and employer-provided car fringe benefits for new contracts entered into after announcement, with effect from 1 April 2014.

Existing contracts materially varied after 16 July 2013 will also fall under the new arrangements. Existing contracts that are not varied will continue to have access to the existing statutory rate throughout the contract.

All car fringe benefits for new leases will be calculated using the operating cost method from 1 April 2014.

The operating cost method is based on the actual business use of the car. Tax is only payable on the portion of operating costs attributable to private use.

Where there is significant private use, the operating cost method ensures an appropriate amount of tax is paid on the private benefit.

A tax subsidy for the private use of a car is no longer justified or appropriate.

Recent technological advances, such as car log book apps, make keeping a log book easier than ever, and have assisted employers to comply with their record-keeping obligations, making compliance much easier today.
Most people claiming car expenses will be unaffected

This reform will not affect the more than 3.6 million workers – including employees, the self-employed and sole traders – claiming deductions for work-related travel expenses when they use their own car for work reasons.

The changes do not affect the existing exempt car benefit concessions that apply to certain uses of taxis, panel vans, utes and other non-car road vehicles.

Around two-thirds of employees that salary sacrifice a car earn over $100,000.

Less than one in 50 employees earning less than $100,000 are affected.

If an individual uses their vehicle for a significant amount of work-related travel, they will still be able to use the operating cost method to ensure their car fringe benefit excludes any business use of the vehicle. Fringe benefits tax will still only apply to the private portion of any benefit provided to an employee.

Employers who provide a work car to employees for occasional private use (for example, weekend travel) will continue to be able to use the operating cost method.