

# Changes to car fringe benefit rules

Outlines the changes announced in the 2011 Budget to the statutory formula method for calculating car fringe benefits

If you make a car you own or lease available for the private use of your employee or their associate, you may be providing car fringe benefits. There are two methods available for valuing car fringe benefits:

- operating cost method
- statutory formula method.

Changes were announced in the 2011 Budget which are now law. Under these changes, the progressive statutory rates have been replaced with a single statutory rate of 20%, which applies regardless of kilometres travelled.

No changes have been made to the operating cost (or 'log book') method. You can still use the operating cost method so that the taxable value of your car fringe benefits will exclude any costs relating to the business use of the car.

## OVERVIEW OF WHEN THE CHANGES APPLY

The following table provides an overview of when the changes will apply.

If...	Then...
<ul style="list-style-type: none"> <li>■ The car fringe benefit is provided before 7.30pm Australian Eastern Standard Time (AEST) on 10 May 2011</li> </ul>	The old statutory formula rules apply
<ul style="list-style-type: none"> <li>■ The car fringe benefit is provided after 7.30pm AEST on 10 May 2011, and</li> <li>■ it can be proven that the last commitment is a pre-existing commitment</li> </ul>	The old statutory formula rules apply
<ul style="list-style-type: none"> <li>■ The car fringe benefit is provided after 7.30pm AEST on 10 May 2011, and</li> <li>■ there is no pre-existing commitment</li> </ul>	The new statutory formula rules apply
<ul style="list-style-type: none"> <li>■ Car fringe benefits are provided before and after 7.30pm AEST on 10 May 2011</li> <li>■ there is a pre-existing commitment, and</li> <li>■ there is a change to the pre-existing commitment after 7.30pm AEST on 10 May 2011 that results in a new commitment</li> </ul>	<p>The old statutory formula rules apply until the end of the current FBT year</p> <p>The new statutory formula rules apply from the start of the next FBT year</p>

## HOW THE OLD STATUTORY FORMULA METHOD WORKS

Under the old statutory formula method, the taxable value of car fringe benefits is based on the cost of the car multiplied by the relevant statutory percentage. The percentage depends on the number of kilometres the car has travelled, taking into consideration the number of days in the year that you provided car fringe benefits.

Where the last commitment in relation to a car has been entered into before 7.30pm AEST on 10 May 2011 the old statutory rates will continue to apply, as outlined in table 1.

However, if a pre-existing commitment is altered, it may be considered a new commitment that is subject to the new arrangements.

TABLE 1

Total kilometres travelled during the FBT year (1 April – 31 March)	Old statutory rate
Less than 15,000	0.26
15,000 to 24,999	0.20
25,000 to 40,000	0.11
Over 40,000	0.07

## HOW THE NEW STATUTORY FORMULA METHOD WORKS

The new flat statutory rate of 20% applies regardless of the distance travelled.

The new flat rate applies to all car fringe benefits after 7.30pm AEST on 10 May 2011, except where there is a 'pre-existing commitment' in place to provide a car.

All pre-existing commitments will remain under the old statutory rates unless there is a change that would amount to a 'new commitment'.



The general intent of the rules is to leave employers/employees who have pre-existing commitments under the old arrangements.

**!** Employers and employees who seek to end existing contracts early and immediately enter new contracts, just to get the benefit of new arrangements, may be caught by the general anti-avoidance provisions.

For new commitments, transitional arrangements will apply with the change being phased in over four years as outlined in table 2.

**TABLE 2**

Total kilometres travelled during the FBT year	Statutory rate			
	From 10 May 2011	From 1 April 2012	From 1 April 2013	From 1 April 2014
Less than 15,000	0.20	0.20	0.20	0.20
15,000 to 25,000	0.20	0.20	0.20	0.20
25,000 to 40,000	0.14	0.17	0.20	0.20
Over 40,000	0.10	0.13	0.17	0.20

**EXAMPLE: Transitional arrangements – new commitment**

James enters into a car novated lease arrangement starting on 1 July 2012. The lease on the car runs for two years.

The total kilometres travelled during the relevant FBT years and applicable statutory rate for the car in each of the years is as follows:

Period	Kilometres travelled	Annualisation of kilometres	Statutory rate
1 July 2012 to 31 March 2013	35,000 kms	$35,000 \times 365/274 = 46,624$ kms	0.13
1 April 2013 to 31 March 2014	42,000 kms	Not applicable	0.17
1 April 2014 to 30 June 2014 (lease ends)	10,500 kms	$10,500 \times 365/91 = 42,115$ kms	0.20

**EMPLOYER CAN CHOOSE TO SKIP THE TRANSITIONAL ARRANGEMENTS**

For new commitments only, you can choose to skip the transitional arrangements and apply the new flat 20% rate.

This choice is on a car by car basis.

For example, you might choose to move straight to the 20% rate for one particular car while using the transitional rates for other cars that are covered by the new rules.

However, you cannot skip the transitional arrangements where an employee would be at a direct financial disadvantage as a result of this choice, unless you have obtained the consent of the employee.

You do not need to notify the Commissioner of your choice to skip the transitional arrangements – your business records are sufficient evidence of this.

**WHAT CONSTITUTES A COMMITMENT?**

A 'commitment' is entered into at the point there is a commitment to a transaction and it cannot be backed out of. The commitment needs to be financially binding for one or more of the parties.

Two examples of a commitment are where an employer commits to the purchase or lease of a car.

There will also be alterations to pre-existing commitments that result in a new commitment. Examples of these include:

- employer's perspective
  - the employer refinancing a car
  - the employer altering the duration of an existing lease contract
  - where accessories, such as window tinting, DVD players, luggage racks or bull bars are fitted to a leased car after the lease commenced and lease payments are increased to reflect this change.
- employee's perspective
  - the employee committing to a lease/novation agreement
  - the employee altering the duration of an existing contract.

As FBT applies to an employer, any change of employment will also constitute a new commitment to the application or availability of the car by the new employer.

**EXAMPLE: Change in employer**

Anna works for X Co. and entered into a three year novated lease arrangement with her employer in January 2010. The car fringe benefits are valued by her employer using the statutory formula method.

On 12 November 2011, Y Co. officially takes over X Co. and Anna is now an employee of Y Co.

As Anna's employer has changed, car fringe benefits provided by the new employer from 12 November 2011 will come under the new rules.

**COMMITMENT PRE-7.30PM AEST 10 MAY 2011 BUT SUPPLY OF THE CAR BENEFIT IS POST 7.30PM AEST 10 MAY 2011**

Where you, an employee, or their associate has committed to a car before 7.30pm AEST on 10 May 2011 but provision of the car benefit does not take place until after 7.30pm AEST on 10 May 2011, the old statutory rules will apply.

**EXAMPLE: Commitment entered into before 7.30pm AEST 10 May 2011 however delivery is delayed**

During April 2011 Constance began discussions with her employer and a salary packaging provider about obtaining a car through a salary sacrifice arrangement.

On 2 May 2011, Constance agreed to a particular option put forward by the salary packaging provider and the car was ordered.

The car is scheduled for delivery on 1 August 2011, at which point she will sign documents with the leasing provider for the provision of the car.

As Constance entered into a commitment on 2 May 2011, the old statutory rules will apply.

**NEW COMMITMENT MADE PART WAY THROUGH THE FBT YEAR; SAME EMPLOYER**

Where part way through an FBT year there is a change to a pre-existing commitment, and the employer remains the same, the new statutory rules will only begin to apply from the beginning of the next FBT year.

**EXAMPLE: Alteration of pre-existing commitment part way through the year**

Blake entered into a novated lease arrangement with his employer in 2009. The original lease period expired in September 2011. The car travelled 32,000 kms in the 2011-12 FBT year and the annualised kilometres travelled in the 2012-13 FBT year will be 34,000. The use of the car is valued under the statutory formula method.

In August 2011, Blake decides to refinance the same car for another year and signs documents agreeing to extend the lease by 12 months. This change would be considered to be a new commitment.

The use of the car is now under a new commitment and will fall under the new arrangements for valuing car fringe benefits. However, the new rates will only begin to apply from the beginning of the next FBT year following the date of this new commitment that is from 1 April 2012.

This is because a new commitment began to apply part way through an FBT year in relation to a car that was available from 1 April and the statutory rate of 0.11 (that is, the rate under the old rules) will apply for the entire 2011-12 FBT year.

For this car, the new statutory rates will begin to apply from 1 April 2012. Accordingly, for the FBT year commencing on 1 April 2012 the rate of 0.17 will apply.

 **MORE INFORMATION**

For further information visit our website at [www.ato.gov.au](http://www.ato.gov.au) and search for 'reforms to car fringe benefit rules' or phone **13 28 66**.

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