

# ESSENTIAL GUIDE TO

Small Business Accounting

# FRINGE BENEFITS TAX



# Introduction



Many businesses offer extra perks that employees really appreciate—things like discounts, free meals, gym memberships, and even accommodation. These perks can make your business more appealing and help keep employees happy beyond just their salary. But there's a catch: the Australian Tax Office (ATO) also takes notice of these perks through something called Fringe Benefits Tax (FBT).

FBT applies to certain non-cash benefits that employers give to employees (or their family members) in addition to regular wages. It's the employer's job to pay this tax, which is calculated based on the value of the benefit, usually tied to its cost. Currently, the FBT rate matches the highest tax bracket at 47% and can be updated each year. The FBT year runs from April 1 to March 31.

Keeping accurate records of these benefits is key to meeting FBT reporting requirements, but it can be tricky, especially for small business owners. This guide breaks down the basics of FBT to help you report correctly and stay on top of your obligations—keeping your business in good financial shape.

## Who Receives Fringe Benefits?

- Past or future employees
- Company directors
- Beneficiaries of a trust

# Fringe Benefit Exemptions

→ FBT exemptions cover a range of work-related items, including:

- Portable electronic devices
- Computer software
- Protective clothing
- Briefcases
- Work tools

→ Minor benefits, valued at under \$300, may also be exempt from FBT.

## Common Types of Fringe Benefits



Loans



Accommodation



Housing



Food



Mortgage payments



Travel expenses



Childcare and school fees



Entertainment and recreation

# Key Fringe Benefits do not include

Benefits to volunteers/  
contractors



Rights under  
employee  
share  
schemes



Salary and  
wages



Superannuation  
contributions



## Common Types of Fringe Benefits

### Bringing in and keeping the best talent



Attract top talent and give employers a winning advantage.

### Work-Life Balance



Perks like gym memberships and housing support boost work-life balance.

### Potential Tax Savings



Offer tax benefits for employees and deductions for employers.

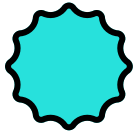
### Increased Job Satisfaction



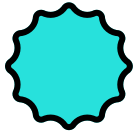
They help build employee loyalty and lower turnover.

# Do I Need To Register My Business for FBT?

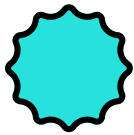
Use this checklist to assess your business



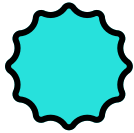
**Entertainment (food, drink, or recreation)**



**Business vehicles for private use**



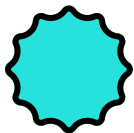
**Salary sacrificing packages**



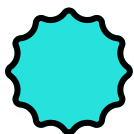
**Discounted goods offered to employees**



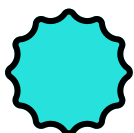
**Car parking provided to employees**



**Reduced interest loans offered to staff**



**Reimbursement of employees' private expenses**



**Accommodation provided to employees**

# Calculating FBT

Employers are responsible for working out their Fringe Benefits Tax (FBT) liability. This involves “grossing up” the taxable value of any benefits provided, so it reflects the pre-tax income employees would need to cover those perks themselves. The final FBT is then determined by applying the FBT rate to this grossed-up amount.

It's also important to note that fringe benefits fall into two categories: Type 1 and Type 2. Type 2 benefits have a lower gross-up rate, primarily used for payroll tax purposes.

1

## Determine Value

Include GST in the taxable value when applicable. For car-related benefits, make use of the FBT car calculator to ensure accuracy.

2

## Sum GST

Add up all fringe benefits that include GST, covering both reportable and non-reportable benefits that are eligible for GST credits.

3

## Higher Rate

Take the total from Step 2 and multiply it by the higher gross-up rate of 2.0802 to account for GST credits.

4

## Sum Non-GST

Add the fringe benefits from Step 1 that did not include GST, covering GST-free or input-taxed benefits.

5

## Lower Gross-Up

Multiply the amount from Step 4 by the Type 2 gross-up rate of 1.8868.

6

## Total Taxable Amount

Add amounts from Steps 3 and 5

7

## Apply FBT Rate

Multiply Step 6 total by 47%.



# FBT Record Keeping Tips

Keeping accurate records for Fringe Benefits Tax (FBT) is crucial for staying compliant and simplifying tax management. Here are some key tips:

## Identify Benefits

List all fringe benefits provided to employees.

## Employee Declarations

Ask employees to provide statements outlining any benefits they've received.

## Valuation of Benefits

Follow ATO guidelines to accurately value each fringe benefit.

## Maintain Documentation

Keep all relevant invoices, receipts, and agreements.



## **FBT Returns**

Submit FBT returns accurately and on time.

## **Employee Records**

Maintain detailed records of each employee's benefits, salary, and employment changes.

## **Periodic Reconciliation**

Regularly reconcile benefits with financial records to ensure accuracy.



## **Professional Advice**

Consult a tax expert or accountant to stay compliant and optimize FBT strategies.



# FBT: A Case Study



Iris Salon, a well-known beauty destination in Sydney, goes beyond offering high-quality services like haircuts, styling, facials, massages, and nail treatments by also providing meaningful perks for its dedicated team of 10 professionals. This team includes skilled stylists, therapists, and support staff, each benefiting from a range of employee perks such as:

01

## Staff Discounts

Employees at Iris Salon enjoy a 50% discount on all salon services,

02

## Meals and Entertainment

The salon occasionally hosts team-building lunches and dinners at local restaurants.

03

## Company Car

The company car is primarily for the salon manager's business use, but other team members can also use it for work-related tasks when needed.

04

## Free Beauty Treatments

Employees are welcome to enjoy free beauty treatments like hair styling and facials during their breaks or after work.

Under Australian tax law, the provision of a company car for employee use and complimentary beauty treatments are considered fringe benefits. Consequently, Iris Salon is required to fulfill Employers meet their Fringe Benefits Tax (FBT) obligations by filing an FBT return, which reports the taxable value of these benefits for the year.

To calculate the FBT, the taxable value of each benefit needs to be "grossed up" to represent the gross salary employees would need to earn, factoring in the highest marginal tax rate (including the Medicare levy), to acquire the benefits themselves. This process ensures that the tax liability mirrors the pre-tax income equivalent of the benefits provided.

Accurate record-keeping and precise calculations are crucial for Iris Salon to meet its FBT obligations, stay compliant with tax regulations, and avoid any potential penalties.



# For inquiries, contact us.

**Website:** [www.taxopia.com.au](http://www.taxopia.com.au)

**Email:** [info@taxopia.com.au](mailto:info@taxopia.com.au)

**Tel:** (03) 7034 4646 | 1300 829 674

