

A valid rental agreement and receipts exist, or that the interest component is in relation to an existing mortgage related to the employee?

It is customary in the particular industry for employers to provide free or subsidised residential accommodation to employees in the remote area?

It is necessary for the employer to provide free or subsidised accommodation because:

The employee has to move frequently to carry out the work or;

There is insufficient suitable residential accommodation otherwise available at or near the place or places where the employees are employed?

Remember if the employer is of a type listed below then accommodation will be treated as being in a remote area where it is situated at least 100 kilometres from a town with a census population of 130,000 or more:

A public hospital that is a PBI .

A government body where the duties of the employee are exclusively performed in, or in connection with, a public hospital that is a PBI.

A public hospital other than a government hospital.

A hospital carried on by a non-profit society or a non-profit association.

A charitable institution, and

A police service.

The list is only a small selection of the wide range of fringe benefits that may be utilised. We can advise you on the special requirements associated other fringe or exempt benefits not included above.

For Public Benevolent Institutions and other rebateable charities special care needs to be taken in calculating the grossed up taxable value of fringe benefits paid to each employee.

If the grossed up amount exceeds \$30,000 then the full rate of FBT is applied to the balance of fringe benefits above the limit.

An incorrect classification of a payment as an exempt benefit rather than a fringe benefit can lead to the limit on fringe benefits being exceeded for an employee with a consequent fringe benefit tax liability.



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## NEWSLETTER

**March 2004**

### Fringe Benefits Tax Reminder

The FBT year is rapidly coming to a close with the approach of March 31. There is significant risk of unnecessary Fringe Benefits Tax unless a review take place prior to the end of the FBT year.

The payments made to, or on behalf of, directors and other employees apart from salary and wages should be reviewed for classification as fringe or exempt benefits.

The following points should be considered in that review:

### Fringe Benefits

#### **Mortgage and Personal Loan Payments:**

Do you have documentation that a mortgage or personal loan exists in the name of the employee and that payments have been applied to the mortgage or personal loan?

**NB:** *If the payment on behalf of the employee is to a mortgage offset account then under ATO ID 2002/614 the payment will be regarded as payment of cash salary and not as a fringe benefit.*

## Rent Payments :

Do you have documentation that a bona fide rental agreement exists in the name of the employee and that receipts from the landlord support the rental payments?

## Credit Card Payments:

Have you verified that a debt exists by inspecting a statement in relation to a credit card facility to which payments have been directed?

Have you verified that cash withdrawals from the credit card have been repaid by the employee to the financial institution? Problems may arise if the employee has drawn down as cash amounts equivalent to the payments by the employer and not repaid cash withdrawals to the credit card.

Have you verified that payments to any Visa Card are in fact to a credit card facility? Some Visa cards are debit cards. Payments directed to a debit Visa Card will not be in reduction of a debt and as such will constitute an untaxed cash payment of salary to the employee.

## Motor Vehicles:

Do you have documentation of the following:

The annual kilometres travelled by the vehicle and odometer reading at 31 March.

The garage arrangements for the vehicle.

The private and business related percentages of travel derived from log book entries for a minimum 12 week period.

The “base value” of the vehicle.

The actual costs attributed to the vehicle.

The deemed depreciation and deemed interest rates.

Have you chosen the appropriate method of calculating the taxable value of the vehicle?

## Remote Area Housing Assistance (*50% reduction in Taxable Value*) (*section 60*):

Have you verified the rental agreement and receipts, or interest component in relation to a mortgage related to the employee?

Have you documented that the housing is in an area included on the ATO list of designated remote areas?

## Exempt Benefits:

### Meal Entertainment Expenses (*For Public Benevolent Institutions only*):

Have you verified that reimbursements of meal entertainment expenses to an employee are in reference to the provision of:

Entertainment by way of food or drink; or

Accommodation or travel in connection with a meal entertainment event?

The meal entertainment event is most likely to occur in a bona fide restaurant and would not constitute a “take away” meal.

The accommodation or travel must be genuinely connected to the meal entertainment event and usually be on the same day.

Meal entertainment events that occur overseas must be carefully scrutinised for connection between the event and accommodation and travel, with preferably a chain of meal receipts from beginning to end of the trip.

Reimbursements that do not meet the above criteria may have to be reclassified as fringe benefit expense payments.

## Mobile Telephone Expenses:

Have you verified that the mobile telephone is primarily for use in the employee's employment as demonstrated by:

A listing of the mobile telephone number as the contact number for the employee?

Evidence of a significant number of work related calls to or from the mobile telephone number.

## Remote Area Housing Benefits (*Fully Exempt*) **Section 58ZC:**

Have you verified for payments made in relation to interest component on a mortgage or rent or other accommodation provision that:

The housing is in an area included on the ATO list of designated remote areas? For most employers, accommodation is in a remote area if it is not in or near an urban centre. The accommodation must be located at least 40 kilometres from a town with a census population of 14 000 to less than 130 000 or at least 100 kilometres from a town with a census population of 130 000 or more (population figures based on the 1981 Census).