Fringe Benefits Tax[1]

A Guide to Fringe Benefits Tax on Company Vehicles

Introduction

Most benefits given to employees other than their salary or wages are fringe benefits. There are four main groups of taxable fringe benefits:

- motor vehicles available for private use
- free, subsidised or discounted goods and services
- low-interest loans
- employer contributions to sickness, accident or death benefit funds, superannuation schemes and specified insurance policies.

If these benefits are enjoyed or received by employees or shareholder-employees as a result of their employment, the benefits are liable for Fringe Benefits Tax (FBT), payable by the employer.

This document deals specifically with FBT on company vehicles.

How often Is FBT Payable?

Employers are required to file FBT returns quarterly (using an IR420 return) unless they meet the criteria outlined below and elect to file yearly returns.

Who May File Yearly FBT Returns?

You may file an *income year return* (IR421) if your company has shareholder-employees. This return will cover the same period as your company's accounting year. The due date for filing the return is the same as that for paying end-of-year income tax.

To qualify for this, you must also meet one of the following criteria:

- you are a *close company*[2] and your annual gross PAYE and ESCT for the previous year are no more than $500,000; or
- you only provide motor vehicles for private use to shareholder-employees and that benefit is limited to two vehicles; or
- you were not an employer in the previous year.

Alternatively, you may file an *annual return* (IR422) if your annual gross PAYE and ESCT for the previous year are no more than $500,000 or you didn't employ any employees in the previous year. These returns are for the year to 31 March, and are due on 31 May.

1 Information adapted from the Inland Revenue Department's guide, IR409 Fringe benefit tax guide: A guide to working with FBT, dated April 2016.
2 A close company has five or fewer natural persons who hold 50% or more of the total voting or market value interest in the company.

FBT and Motor Vehicles

The most important point to remember about FBT and vehicles is that as long as a vehicle is *available* for private use by an employee (including shareholder-employees), you'll have to pay FBT, *whether or not your employee actually uses the vehicle privately*.

You must pay FBT, calculated as a percentage of the value of the vehicle (see below), for every day in a return period that the vehicle was available for private use.

Daily Exemptions

There are two main exemptions from FBT for vehicles which are otherwise available for private use:

- Emergency calls: The whole of any day on which the vehicle is used to attend an emergency call is exempted. The visit must be made to attend to some essential plant or service or be in relation to the health or safety of a person.
- Out-of-town travel: If an employee is required to travel, the travel *including the day of departure and the day of return* from a trip longer than 24 hours is exempted.
- Other days not liable: From time to time vehicles will be unavailable to the employee, for example, if the vehicle has broken down or is being repaired. The vehicle must be unavailable for at least one complete 24-hour period before you can claim an exemption. This includes leaving the vehicle at an airport carpark if the flight is business related.

Three-month Test Period

Using a three-month test period means that instead of recording every daily exemption a vehicle qualifies for over its whole life, you can keep these full records for just three months. You can then use the result of the test to calculate your FBT for that vehicle for a three-year application period, after which you'll have to run another test period.

The test period must be representative of the three-year application period.

Exemption Days

The number of days in each quarter varies when deducting exempt days from the total of liable days. You must deduct the number of exempt days from the actual number of days in the quarter.

The actual number of days in each quarter are:

- June quarter (Apr, May, Jun) 91
- September quarter (Jul, Aug, Sep) 92
- December quarter (Oct, Nov, Dec) 92
- March quarter (Jan, Feb, Mar) 90 (91 days in leap years)

Motor Vehicle Valuation Methods

Employers have two options for valuing motor vehicles.

For vehicles bought or leased on or after 1 April 2006, FBT can be calculated on either the cost price or the tax book value.[3]

3 For vehicles owned or leased prior to 1 April 2006, FBT must be calculated on the cost price of the vehicle unless you've owned or leased the vehicle for five years. If you've owned or leased the vehicle for five years or more you may choose to use either the cost price or the tax book value.

Actual Cost Price

The actual cost price should include GST and any initial costs of getting the vehicle on the road, as well as any extras fitted. However, the cost price doesn't include items such as registration. Any trade-in value should not be subtracted from the cost price.

The FBT valuation rate when using actual cost price is 20% per year (or 5% if FBT is paid quarterly).

Tax Book Value

The motor vehicle's tax book value is:

- the original cost price less the total accumulated depreciation of the vehicle as at the start of the FBT period; or
- the cost of the vehicle if acquired after the beginning of the tax year.

The FBT valuation rate in this case is 36% (or 9% if FBT is paid quarterly). While this costs an employer more in the initial years when compared to the FBT payable under the actual cost price option, it will benefit employers who intend to retain their motor vehicles f*or longer than five years*.

It is important to note, however, that a minimum value of $8,333 applies to this option.[4]

If an employer chooses this option, it must be applied to that vehicle (owned or leased) until the vehicle is disposed of or no longer leased, or until a period of five years has elapsed.

Motor Vehicle Cost or Tax Value?

Employers who own their vehicles may choose which option (cost or tax book value) benefits them most.

Employers who lease their vehicles may do the same, for leases entered into for periods beginning on or after 1 April 2006.

Vehicle Acquired at No Cost or Less than Market Value

If you receive a vehicle at no cost, or for less than market value, or at a cost that can't be determined from an associated person, the value of the vehicle is the higher of:

- the original purchase price the associated person paid; or
- the current market value.

Market value is the retail price at which the vehicle would have been purchased by that person from a licensed motor vehicle dealer. You must have records to support the market value used.

Calculating the FBT Payable for Private Use of a Motor Vehicle

Quarterly Returns

The value of the fringe benefit (the private use or enjoyment of the motor vehicle, or the availability for that use) is:

$$\frac{Y \times Z}{90}$$

Where:

4 The minimum value reflects a saving of $3,000 a year to the employee if they have unlimited use of the motor vehicle.

- Y is the lesser of (i) the number of days the vehicle is available for private use[5], or (ii) 90; and
- Z is either (i) 5% of the GST-inclusive *actual cost price* of the vehicle, or (ii) 9% of the GST-inclusive *tax book value* of the vehicle

Annual Returns

The value of the fringe benefit for the year is:

$$\frac{Y \times Z}{365} = \text{Value of the fringe benefit}$$

Where:

- Y is the lesser of (i) the number of days during the year the vehicle is available for private use, or (ii) 365 (366 in a leap year); and
- Z is either (i) 20% of the GST-inclusive *actual cost price* of the vehicle, or (ii) 36% of the GST-inclusive *tax book value* of the vehicle

Annual Return Examples

Actual Cost Price:

> Allan had unlimited availability of the company's Audi A6 that cost $132,900. During the year Allan had 75 exempt days when the vehicle was not available for private use.
>
> There are 365 days in the year (except in a leap year): 365 days − 75 days = 290 (Y)
>
> Cost price $132,900 × 20% = $26,580 (Z)
>
> The taxable value of the fringe benefit is:

$$\frac{290\text{ (Y)} \times \$26{,}580\text{ (Z)}}{365} = \$21{,}118$$

Tax (Depreciated) Book Value:

> Using the previous example, where the tax (depreciated) book value of the Audi A6 is $85,056, the calculation would be:
>
> 365 days − 75 days = 290 (Y)
>
> Tax book value $85,056 × 36% = $30,620 (Z)
>
> The taxable value of the fringe benefit is:

$$\frac{290\text{ (Y)} \times \$30{,}620\text{ (Z)}}{365} = \$24{,}328$$

5 Calculation of Y:
When calculating the number of days a vehicle is available for private use, you must deduct the number of exempt days from the actual number of days in the quarter (March quarter: 90 days (91 days in a leap year); June quarter: 91; September quarter: 92; December quarter: 92)

Employee Contributions

If the employee makes any payment in return for having a fringe benefit, the payment is deducted when working out the taxable value of the benefit.

Note: If the employee pays for expenses and is reimbursed by the employer, the value of the fringe benefit remains unchanged.

Employees Paying for Fuel

If the employee pays for some of the fuel, they must give the employer a receipt for each contribution. The contributions should then be deducted when working out the FBT for the period.

Direct Payment to the Employer

A direct payment to the employer by the employee must be recorded by the employer as income for both GST and income tax purposes. The contribution from the employee is deducted when working out the FBT.

A Shareholder-Employee Makes a Contribution by a Current Account Adjustment

This is acceptable if the appropriate journal entries are made and are effective on or before the last day of the FBT period.

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