

Different VALUES

The Australian Tax Office has a different view on motor vehicle values to that of the market, as **Matthew Honan** explains.



Matt Honan, Remunerator

There appears to be a thought that given that trade-in values are in decline, it is better to hold on to the existing motor vehicle for longer than previously considered.

The line of thought is that the motor vehicle is worth more as a business tool than the price you would achieve if you sold it.

However, what you might save on the refinancing of the lease may be swallowed up in the FBT paid for on the motor vehicle.

The only time that FBT reflects the true value of the motor vehicle is the day when it is purchased.

It may not be appreciated that the basis of the calculation for FBT payable using the

...SAVINGS CAN BE SWALLOWED UP BY THE FBT PAID...

Statutory Formula, which is what the majority of companies use, is the initial purchase price, save for stamp duty and registration.

This is then set as the FBT Value for four full FBT years.

What most people do not appreciate is that this FBT Value can be set for up to one day short of five years!

For example, if you bought a motor vehicle on the 2 April 2006 for \$35,000, the FBT will be based upon \$35,000 up to 31 March 2011.

What adds salt to the wound is that after four full FBT years, the FBT value will reduce only by one-third of the original purchase price. This is a once-off and no further reductions to the FBT value are provided.

So, in this example, for the FBT year 1 April 2011 to 31 March 2012, the FBT value will reduce to \$23,333. No doubt this will be considerably higher than the amount the motor vehicle is worth!

So, when you consider your options at the end of the lease, be careful of the hidden costs associated with hanging on to the motor vehicle.

As you can see from the case study, the Tax Office considers the motor vehicle is worth \$20,000 when, in reality, it is only worth, say, \$7000.

The FBT after 1 April 2011 is nearly equal to the total cost of running the motor vehicle and eliminating any tax benefit in providing the motor vehicle.

The information in this article is provided as a guide only and is not a substitute for legal or other professional advice. Tables are for illustrative purposes and actual figures could vary.

Remunerator provides services in all areas of employee benefit management and can be contacted by email on marketing@remunerator.com.au.

CASE STUDY

Car purchased 2 April 2006:

Purchase price of vehicle	\$30,000
Cost of a motor vehicle (FBT)	\$30,000
Distance travelled	15,000km
Lease payments	\$7,000 pa
Running costs	\$5,000 pa
TOTAL COST	\$7,000 + \$5,000 + \$6,196 = \$18,196 pa

After 1 April 2011:

Current value of vehicle	\$7,000
Cost of a motor vehicle (FBT)	\$20,000
Distance travelled	15,000km
Lease payments	\$1,500 pa
Running costs	\$5,000 pa
TOTAL COST	\$1,500 + \$5,000 + \$4,131 = \$10,631 pa

