

RECENT CHANGES what do they mean for vehicle packaging?

Key changes to the Fringe Benefits Tax legislation have had an impact on how we can use salary packaging for employees.



Matt Honan, Remunerator

The Fringe Benefits Tax (FBT) Legislation surrounding motor vehicles is difficult to understand at the best of times, but when there are changes, it challenges how well we understood the legislation in the first place.

The last 12 months have seen some key changes that affect this area of packaging. Running costs have increased and FBT and income tax rates have changed, opening up further use of the Employee Contribution Method of packaging.

Let's examine the recent changes in packaging and then see what it means to the average employee.

RUNNING COSTS

A common misconception about salary packaging a motor vehicle is that the savings are generated solely by the concessional FBT payable on the vehicle's taxable value.

The calculation of FBT (for the 2006/07 year) for a motor vehicle being:

FBT payable	=	FBT taxable value x 46.5% x 2.0647
Where FBT taxable value	=	purchase price x statutory rate

However, there is more to the calculation than just the FBT payable.

The running costs of a salary-packaged vehicle are FBT exempt and, hence, tax free when included in an employee's salary package. Vehicle running costs include fuel, maintenance, tyres, insurance and registration.

Furthermore, you also receive a refund of the GST paid in the form of an Input Tax Credit (ITC) on these running costs from your employer.

The amount of running costs largely determines whether it will be tax effective to

salary package or not. In fact, the higher the running costs of the vehicle, the more the saving that is generated.

Twelve months ago, we were establishing motor vehicles in salary packages with fuel set at \$1.10 per litre. We are now setting the same salary packages with fuel at \$1.40 per litre – a 27 per cent increase in running costs.

When examining salary packaging and assessing the impact of the recent budget changes, we also need to take into account the impact of this significant change in fuel costs.

EMPLOYEE CONTRIBUTION

FBT legislation gives you "credit" for where you have made a "co-contribution" to running costs of the motor vehicle with your take-home (after-tax) money.

In other words, the FBT taxable on the motor vehicle is reduced by the contribution you make to the running costs after tax.

This is because you have already paid income tax on these funds and the ATO has a rule of no double taxation in this area. It is similar to the imputation tax credit system for share dividends.

So, if you contribute to the running costs of the car, the FBT taxable value will reduce by the same amount. In fact, if the employee contributes an amount equal to the FBT Taxable Value, the employee will not pay any FBT.

This is referred to as the Employee Contribution Method. As FBT is equal to the top marginal tax rate of 46.5 per cent, it would not be worthwhile for employees on the top marginal tax rate to use the Employee Contribution Method as they would be swapping the FBT rate with the same rate of tax.

This method is worthwhile for employees earning less than the top marginal tax rate, that is \$150,000 under the new tax changes.

CASE STUDY

The following case study examines the full impact of the changes to running costs and tax over the past 12 months.

The comparison of a package in July 2005 to a package in July 2006 shows very little change to the "bottom line" of the individual package from the employee's perspective.

EMPLOYEE 1

Gross salary:	\$60,000 pa
Purchase price:	\$30,000 (\$28,300 + stamp duty \$1700 – excluded from FBT calculations)
Annual distance:	15,000km
Lease cost:	\$7640 pa
Ins, rego & CTP:	\$1333 pa
Maintenance:	\$500 pa
Petrol:	\$2375 pa (12 mths ago) / \$3075 pa (today)
Total annual cost of motor vehicle:	\$11,848 (12 mths ago) / \$12,548 (today)

We will be using the Employee Contribution Method so \$5660 will be contributed after tax (ie: \$28,300 x 20% = \$5660) and the balance will be before tax

Structure of salary package for motor vehicle:	
12 months ago:	Pre tax \$6188 / Post tax \$5660 = \$11,848 pa
Today:	Pre tax \$6888 / Post tax \$5660 = \$12,548 pa

NOTE: In both cases, no FBT is payable as Employee Contribution Method is used

	ANALYSIS OF SALARY PACKAGING 12 MONTHS AGO		ANALYSIS OF SALARY PACKAGING TODAY	
	WITHOUT PACKAGING	WITH PACKAGING	WITHOUT PACKAGING	WITH PACKAGING
Gross salary	\$60,000	\$60,000	\$60,000	\$60,000
Plus benefits packaged:				
- motor vehicle		\$6,188		\$6,888
Less GST refund		(\$1,027)		(\$1,118)
Total package	\$60,000	\$60,000	\$60,000	\$60,000
Less income tax	(\$14,760)	(\$13,134)	(\$14,250)	(\$12,254)
Take-home pay	\$45,240	\$41,705	\$45,750	\$41,410
Less benefits not packaged				
- motor vehicle	(\$11,848)		(\$12,548)	
After-tax contribution		\$5,660		\$5,660
Take-home pay	\$33,392	\$36,045	\$33,202	\$35,750
Cash saving		\$2,653 pa		\$2,548 pa

Real cost of changes: \$2653 - \$2548 = \$105 per annum.