Fringe Benefits Tax tips and traps

The provision of company cars to employees is a regular practice across the Australian business landscape.

Generally, there are two reasons to provide a car to an employee:

1. It is a **requirement of the job** that employees travel regularly for work purposes, so providing a car will allow employees to effectively perform their duties.
2. Employers want to give themselves an advantage over their competitors **being 'employers of choice'**, attracting the best and brightest, by converting non-deductible private vehicles to tax deductible company cars for their employees.

Granting employees' access to company cars is treated by the ATO as a 'non-cash benefit', more commonly referred to as a fringe benefit. Fringe benefits provided to employees and/or their associates are subject to Fringe Benefits Tax (FBT), which is currently set at 47% of a benefit's grossed-up taxable value.

With the tax rate for fringe benefits set at 47%, the obvious question is **why would small business owners grant an employee access to a company car?** Considering that the great majority of Australian taxpayers are currently paying marginal tax rates of between 34.5% and 39% (for the 2025 financial year and including the Medicare levy) it seems counter-intuitive to allow this. After all, this does translate to an additional 8% to 12.5% tax liability that could be avoided if the employee were simply given a pay rise.

The answer to this question lies in how the 'taxable value' of the fringe benefit (i.e. the car) is calculated. The taxable value of a car fringe benefit is meant to reflect an employee's 'private use' of the vehicle, as only the private use of the car is subject to FBT. Additionally, the FBT law allows 'employee contributions' to reduce the taxable value of the car fringe benefit to nil.

This effectively, allows a fringe benefit to be taxed at the employee's marginal tax rate and not the FBT rate. As such, employers can provide employees with extra value without incurring additional expenses.

Be an employer of choice with little to no extra costs

So, the question now is, how does the ATO calculate the taxable value of a car fringe benefit? Through one of two calculation methods - **operating cost** or **statutory formula**.

OPERATING COST METHOD

The operating cost method is used where an employee has a high business use of the car.

The operating cost method is **typically referred to as the logbook method** – a record detailing how much the car is used for work purposes as well as for private purposes is a requirement.

The logbook **must be maintained for a period of 12 consecutive weeks and detail the purpose of each trip** taken in the vehicle, how many kilometres The logbook **must be maintained for a period of 12 consecutive weeks and detail the purpose of each trip** undertaken in the vehicle, how many kilometres were travelled with each trip, and whether the trip was work related or private. After detailing the purpose of every trip for 12 weeks, the logbook **is then valid for the next 5 years. However, each year there is a requirement for the employer to estimate the business use percentage**

Importantly, the trips must be recorded in the logbook as soon as practically possible after the completion of each trip.

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The **vehicle's private use is then calculated** by dividing the total number of kilometres travelled for private purposes by all kilometres travelled during the 12 weeks recorded in the logbook. By then multiplying the cars private use percentage against the car's actual running costs (fuel, registration, insurance, etc.) as well as notional expenses (depreciation and interest) for the year, the taxable value can be determined.

It's important to note that if the car being used by the employee is subject to 'lease' financing, notional depreciation and interest are ignored unless the purchase price of the car was more than $69,674 (including GST). For leased vehicles, the lease premiums paid are added to the actual costs incurred to determine the taxable value instead.

The operating cost method provides for a lower taxable value when employees use their cars regularly for work purposes, as increasing the proportion of work-related kilometres consequently reduces the private use.

The higher the proportion of work use, the lower the taxable value of the car will be for FBT purposes.

An example. Assume a car's running costs for the year totalled $6,000 and notional costs amounted to another $6,000. This would give rise to a taxable value of $12,000 if the car was never used for work purposes. However, if the logbook declares that the work use is 100%, the car will have a nil taxable value and therefore not subject to FBT.

Employee contributions will further reduce a car's taxable value. How this works will be discussed later in this article.

A common trap. It must be mentioned at this point that an employee's travel between home and the workplace generally does not constitute a work-related trip and would be disclosed in the logbook as private, unless 'itinerant' travel is a requirement of the employee's position.

A warning. Backdating or recreating logbooks is a very bad idea, as most commercial logbooks available for purchase by business owners are secretly dated. This makes it easy for the ATO to identify if a logbook has been manufactured after the fact.

STATUTORY FORMULA METHOD

For those with low or nil work-related use of their cars, the statutory fraction method, or 'stat method', is the preferred method to calculate the taxable value of a car provided to an employee. The stat method **is generally the approach adopted by employers looking to achieve "employer of choice' status** when providing cars to staff members, as the calculation **can result in a lower taxable value** than if a logbook were to be completed. Note that the Statutory Formula Method is not available for Utes, Vans and similar vehicles with a carrying capacity of 1 tonne or more, or vehicles designed to carry more than 8 passengers.

Changes were implemented following the 2010 federal budget, determining that under the stat method the private use is determined as a flat 20% of a car's 'base value'. **In a nutshell,** the base value is the car's purchase price, less stamp duty and any registration costs incurred as part of the purchase. The number of days 'available for private use' is also taken into consideration, so if a car was not provided for the full year the taxable value is reduced accordingly.

An example. A car with a $30,000 purchase price would have a deemed private use value of $6,000 under the stat method ($30,000 x 20% = $6,000) if it was available to the employee for the whole FBT year.

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There are other incidences that reduce the number of days available for private use (and thereby taxable value) but these are not discussed here.

As with the logbook method, employee contributions will also reduce the taxable value of the car under the stat method.

EMPLOYEE CONTRIBUTIONS

Employee contributions are after-tax costs paid by an employee maintaining a car during the FBT year and are considered when calculating the taxable value of a car for FBT purposes which can reduce the taxable value to nil.

There are **two ways for an employee to make employee contributions** being after tax payments made from the employee directly back to the employer, and the employee paying the running and maintenance costs for the car directly from their after-tax income.

Any reputable car salary packaging company will automatically facilitate employee contributions. How these employee contributions are considered in determining a car's taxable value are illustrated below.

HOW EMPLOYEES BENEFIT

Employees can capitalise on these FBT concessions by packaging the cost of a car in with their negotiated salary package effectively turning a non-deductible private car into a tax-deductible business vehicle, gaining access to tax concessions in the process.

The employee's car benefits can be packaged in such a way that no FBT is payable, and at no additional cost to the employer, as illustrated below.

ASSUMPTIONS	Purchase Price (inc. GST)	25,000.00
	Amount Financed	22,727.27
	Monthly Lease* (inc. GST)	363.10
RUNNING COSTS	Fuel	2,600.00
	Registration	800.00
	Insurance	700.00
	Repairs	1,000.00
		5,100.00
	Employee Contribution (min.)	5,000.00

*based on a 4-year novated lease with a 7% interest rate and balloon payment required at the end of the lease term of $10,000 (40% of the purchase price)

By allowing employees to partially salary package the cost of their cars (in this case, the lease repayments) the employee is almost $1,750 better off each year. Over a 4-year lease, this would total $7,000 in tax savings simply by allowing the employee to package their lease payments.

Also, provided the purchase price of the car is less than $69,674, novated lease payments are deductible in full to the employer when paid.

As there is no difference to the tax position for the employer whether claiming lease premiums or employee wages, your business can attract the best employees by allowing salary packaging.

PACKAGING	Salary		
TYPE	FULL	PARTIAL	NONE
Gross Wages	**80,000**	**80,000**	**80,000**
Less:			
Lease Payments*	(3,961.13)	(3,961.13)	-
Running Costs*	(4,636.36)	-	-
Taxable Wages	71,402.51	76,038.87	80,000
Tax Payable	15,100.88	16,700.42	18,067
After Tax Income	56,301.63	59,338.45	61,933

PACKAGING	Salary		
TYPE	FULL	PARTIAL	NONE
Less:			
Lease Payments	-	-	(4,357.20)
Running Costs	-	(5,100)	(5,100)
Employee Contr.	(5,000)	-	-
Income remaining**	51,301.63	54,238.45	52,475.80

*GST on car expenses that are salary packaged, are not passed onto the employee, because the employer claims GST credits when lodging their BAS statements and so generally do not recoup them again from the employee.
** This is an indicative calculation and does not take into consideration all tax offsets or government, pensions, concessions and allowances.

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