

### FBT: what you need to know before 31 March

*With the Fringe Benefits Tax (FBT) year ending on 31 March, we outline some important changes and the common issues and errors made by employers.*

FBT is a tax payable by employers when certain benefits are provided to employees that is separate to salary or wages. FBT was introduced to prevent employers reducing the tax liability of employees by providing benefits to them that were not recognised as income. Most employers who provide fringe benefits to employees during the course of the year need to register and pay FBT.

#### Are you liable for FBT?

If you are not sure if you are providing a benefit to your employees, and as a result, liable for FBT, here are some key questions you should ask yourself:

- Do you make vehicles owned by the business available to employees for private use?
- Do you provide loans at reduced interest rates to employees?
- Have you released an employee from an owed debt?
- Have you paid for, or reimbursed, an expense incurred by an employee?
- Do you provide a house or unit of accommodation to your employees?
- Do you provide employees with living-away-from-home allowances?
- Do you provide entertainment by the way of food, drink or recreation to your employees?
- Do any of your employees have a salary package arrangement in place?
- Have you provided your employees with goods at a lower price than they are normally sold to the public?

#### What's exempt from FBT?

The following work related items are already exempt from FBT:

- Mobile or car phones used for the employee's job;
- Protective clothing required for the employee's job;
- A briefcase ;
- A calculator;
- A tool of trade;
- An electronic diary or similar item; or
- A notebook computer, a laptop computer or a similar portable computer (limited to the purchase or reimbursement of one computer for each employee a year).

The Government has kept abreast of new technology in the work place by adding more work related items to the FBT exemption list. If legislation currently before the Parliament passes, from 1 April this year the following work items will be exempt from FBT:

- Personal Diary Assistant (PDA): an amendment was made to extend the FBT exemption on electronic diaries to include PDAs (hand held devices used as a personal organiser). It's currently the ATO's practice to allow exemptions on PDAs for the current FBT period; and
- Portable Printers specifically used with a portable computer have been added to the FBT exemption list.

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### Interest rates on the rise

Last month, the Reserve Bank of Australia announced an increase in interest rates by 0.25% to 5.5%. This is the first increase in interest rates since late 2003.

RBA Governor Ian McFarlane attributed the increase to:

- the continuing strong growth of the Australian economy and the pressure this growth is putting on the remaining spare capacity in the labour market
- The higher than forecast inflation rate
- Continuing growth in domestic spending and the likelihood of spending growth continuing unabated.

According to Infochoice, the repayment increase on a \$500,000 loan over 25 years is an additional \$80.36 per month (assuming a rate rise to 7.32%).

For business, the significant impact comes from the effect that this announcement will have on consumer sentiment and the flow through effect on sales and cash flow.

The interest rate increase will dampen key consumer markets in housing, motor vehicles and financed consumer goods.

For exporters, who are only now just starting to see a recovery, the increase in interest rates may push the Australian dollar higher, making exports less competitive.

#### Key issues for employers

- Ideally your debts should not exceed about 35-40% of your assets. There will be some exceptions to this with new business start ups and first home buyers.
- Review the cost of cash in your business, reviewing rates, the configuration and mix of loans and consolidate where possible.
- If possible, avoid having private debt as well as business and investment debts. You can't get any tax relief on your private debt. If you have both then there can be ways to maximise your tax benefit.

### Cash tight? Why it's going to get tighter

For many SMEs this is not a good news story. The increased Christmas activity, followed by the January break and February, where cash flow tightens for many businesses, means that cash flow is scarce.

February is the worst cash flow month of the year for business. Cash tightens quickly due to increased outlays immediately before Christmas. This is followed by the January holidays and in February, the pre Christmas bills start to hit consumers and the flow through effect happens quickly. Then at the end of February with cash flow tight we have the big outflow on BAS payments.

The results are predictable – at the worst end we see an increase in the number of taxpayers late or unable to meet the BAS payment deadline. In some cases this is reflected through late lodgement of the BAS, in others it is late payment. Even businesses with good management and cash control in place will see a slow down in debtor collections, and there is likely to be an increasing use of overdraft and other loan facilities.

This cycle is absolutely predictable and the better managed businesses know its coming and manage it closely. This means not relaxing on debtor collections and having your cash flow forecasts in place so that you know how your cash cycle will move over the first quarter of the year.

Too many businesses start chasing their debtors too late, hoping to pull through the necessary cash to meet their tax payments. Often this is too late.

The February cash flow crunch will typically take 45-60 days to wash through the system. So, if you haven't managed this, don't be surprised if you are under cash flow pressure until late April.

Managing cash flow pressures is more than simply keeping on top of your debtors. Stock control is important for many businesses. Your profitability may look ok but if your cash is tied up in stock it is hard to use this to make tax and other creditor payments.

If you are under cash flow pressure now, it is probably too late to fix the causes. The best course of action is to look at your cash flow position and make sure you have a detailed and realistic cash flow forecast in place for the next three to six months. Once you have a picture of what the coming months are going to look like then you can decide whether you need some short term funding to assist in managing the next couple of months.

Then start work on your debtors, stock management, capital expenditure and overheads. Some focus on these should start to produce results over 30-45 days.

**Quote of the month:** Motivation is everything. You can do the work of two people, but you can't be two people. Instead, you have to inspire the next guy down the line and get him to inspire his people.  
*Lee Iacocca*

*If you have any questions about the issues we've covered in this newsletter, please contact us today.*

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#### GST related errors in FBT returns

Incorrectly calculating the GST treatment of a fringe benefit is a common problem being targeted by the ATO.

Generally, when calculating the FBT you pay, there is one of two rates used, known as 'gross up' rates. The gross up rate depends on the benefit falling into a **Type 1** or **Type 2** category. The 'type' of benefit depends on whether you are entitled to GST input tax credits on that benefit.

Most employers registered for GST are entitled to GST input tax credits on their business related purchases, including benefits provided to employees for their private use.

For employers to recover GST input tax credits on benefits subject to FBT, a higher, GST inclusive, gross up rate is used. This ensures that the net cost to you in providing a fringe benefit remains neutral under the GST system.

A type 1 benefit, that is benefits entitled to GST input tax credits, apply a gross up rate of 2.1292 for the 2005 FBT year.

Type 2 benefits use the rate of 1.9417 for the 2005 FBT year; as these benefits are GST free or input taxed, a lower gross up rate applies.

The ATO reports that Type 1 and Type 2 benefits are being incorrectly identified. Employers are applying the lower Type 2 gross up rate to benefits where they are entitled to claim GST input tax credits.

The ATO also found that 100% GST credits on meal benefits were being claimed where employers elected the 50-50 split method, one of two options employers chose from to calculate FBT on meal entertainment.

Only 50% of entertainment is subject to FBT when using this method hence employers are only entitled to half of the GST input tax credits.