

| | | | |
|------------|-----------------|------------------|----------------|
| ATO MINUTE | 540-2009 | 8 SEPTEMBER 2009 | |
| FORMAT | MINUTE NO. | ISSUE DATE | CLASSIFICATION |



Australian Government
Australian Taxation Office

ATO MINUTE

FILE REF: 09/6250

| | |
|---------------|---------------------------------------------------------------------------------|
| TO: | Maryanne Mrakovcic, General Manager, Tax Analysis Division |
| COPIES TO: | Treasury: Brenda Berkeley (GM), Tax Design Division, Colin Brown, Cliff Bingham |
| TREASURY REF: | |

| | | | |
|------------------|-----------------------------------------------------|----------------|--------------------------------------------------------------------|
| FROM: | Michael Monaghan, First Assistant Commissioner, GGR | | |
| BUSINESS LINE: | Governance and Government Relations | SECTION: | Revenue Analysis Branch |
| CONTACT OFFICER: | Paul Brodie | CONTACT PHONE: | (02) 621 62134 |
| CONTACT FAX NO: | (02) 621 62676 | CONTACT EMAIL: | Paul.brodie@ato.gov.au |
| OTHER REFS: | | | |

| | |
|-----------|----------------------------------------------------------------------------------------------------------------------------------------------------------|
| CATEGORY: | <input checked="" type="checkbox"/> Pre policy approval <input type="checkbox"/> Legislative measures development <input type="checkbox"/> General |
|-----------|----------------------------------------------------------------------------------------------------------------------------------------------------------|

| | | | |
|-------------|------------------|----------------|--|
| ISSUE DATE: | 8 September 2009 | RESPONSE DATE: | |
|-------------|------------------|----------------|--|

| | |
|----------|-------------------------------------|
| SUBJECT: | Fringe Benefits Tax on Car Benefits |
|----------|-------------------------------------|

1. Purpose

To provide an estimate of the revenue impact of a proposal to change the statutory fraction used to value a car fringe benefit.

2. Proposal

Currently the statutory fraction varies depending on the number of kilometres the car travels during the year. This proposal has two alternative options to replace the current statutory fractions

Option A: introduce a flat statutory fraction of 0.20 with the following transitional arrangements

| FBT Year | Distance Travelled (kms) | | | |
|----------|--------------------------|-----------------|-----------------|----------|
| | 1 – 15,000 | 15,000 – 25,000 | 25,000 – 40,000 | 40,000 + |
| 2010-11 | 0.20 | 0.20 | 0.14 | 0.10 |
| 2011-12 | 0.20 | 0.20 | 0.17 | 0.13 |
| 2012-13 | 0.20 | 0.20 | 0.20 | 0.17 |
| 2013-14 | 0.20 | 0.20 | 0.20 | 0.20 |

Option B: introduce a flat statutory fraction of 0.15 with the following transitional arrangements

| FBT Year | Distance Travelled (kms) | | | |
|----------|--------------------------|-----------------|-----------------|----------|
| | 1 – 15,000 | 15,000 – 25,000 | 25,000 – 40,000 | 40,000 + |
| 2010-11 | 0.15 | 0.15 | 0.12 | 0.09 |
| 2011-12 | 0.15 | 0.15 | 0.13 | 0.11 |
| 2012-13 | 0.15 | 0.15 | 0.14 | 0.13 |
| 2013-14 | 0.15 | 0.15 | 0.15 | 0.15 |

The new statutory fractions will only apply to new leases. The existing fractions will continue to apply to arrangements entered into before 1 April 2010.

3. Start Date

1 April 2010

4. Background

One method for valuing a car fringe benefit is the statutory formula method. Under this method, the taxable value of the car fringe benefit is a percentage of the car's cost price and is calculated using the following formula:

$$\frac{(A \times B \times C) - E}{D}$$

Where:

A = the base value of the car

B = the statutory percentage

C = the number of days in the FBT year when the car was used or available for private use of employees

D = the number of days in the FBT year

E = the employee contribution

The greater the total distance the car travels (business and private), the lower the taxable value.

The statutory percentage depends on the total kilometres the car travels, as follows:

| Total kilometres travelled during the FBT year | Statutory percentage |
|------------------------------------------------|----------------------|
| Less than 15,000 | 26 |
| 15,000 to 24,999 | 20 |
| 25,000 to 40,000 | 11 |
| Over 40,000 | 7 |

5. Impact analysis – summary details

5.1 Revenue impact – (see Appendix 1)

The revenue impact has been estimated using different behavioural responses.

Option A Flat 0.20 statutory fraction

| Financial Year | 2010-11 | 2011-12 | 2012-13 | 2013-14 |
|-----------------------|----------------|----------------|----------------|----------------|
| | \$m | \$m | \$m | \$m |
| Revenue Impact | 125 | 383 | 723 | 968 |

Option B Flat 0.15 statutory fraction

| Financial Year | 2010-11 | 2011-12 | 2012-13 | 2013-14 |
|-----------------------|----------------|----------------|----------------|----------------|
| | \$m | \$m | \$m | \$m |
| Revenue Impact | 38 | 524 | 501 | 682 |

5.2 Compliance cost impact

Not requested

5.3 Departmental impact

Not requested

Michael Monaghan
First Assistant Commissioner
Governance and Government Relations

Appendix 1 – Revenue impact

Option 1 – Statutory formula method - flat 0.20 statutory rate (phased-in, new contracts only) PLUS 0c/ km - 1 Apr 10 start date

| Salary Sacrifice | 2010-11 | 2011-12 | 2012-13 | 2013-14 | Total |
|----------------------------------------|----------------|----------------|----------------|----------------|--------------|
| FBT | -38 | -76 | -84 | -92 | -291 |
| Company | 0 | 0 | 0 | 0 | 0 |
| Personal Income Tax | 152 | 406 | 686 | 900 | 2,144 |
| GST | 21 | 54 | 91 | 119 | 284 |
| Employer Provided | 2010-11 | 2011-12 | 2012-13 | 2013-14 | Total |
| FBT | -23 | -39 | -28 | -22 | -112 |
| Company | 0 | 0 | -7 | -23 | -30 |
| Personal Income Tax | 14 | 38 | 64 | 84 | 201 |
| GST | 0 | 0 | 1 | 2 | 3 |
| Option 1 - Total Revenue Impact | 125 | 383 | 723 | 968 | 2,199 |
| Underlying Cash Balance | 104 | 329 | 632 | 847 | 1,912 |

Option 2 Statutory formula method - flat 0.15 20 statutory rate rate (phased-in, new contracts only) PLUS 0c/ km - 1 Apr 10 start date

| Salary Sacrifice | 2010-11 | 2011-12 | 2012-13 | 2013-14 | Total |
|----------------------------------------|----------------|----------------|----------------|----------------|--------------|
| FBT | -48 | 34 | 38 | 89 | 112 |
| Company | 0 | 0 | 0 | 0 | 0 |
| Personal Income Tax | 133 | 356 | 600 | 788 | 1,876 |
| GST | 17 | 45 | 75 | 99 | 236 |
| Employer Provided | 2010-11 | 2011-12 | 2012-13 | 2013-14 | Total |
| FBT | -73 | 64 | -268 | -306 | -583 |
| Company | 0 | 0 | 13 | -43 | -30 |
| Personal Income Tax | 9 | 25 | 43 | 56 | 134 |
| GST | 0 | 0 | 0 | 0 | 0 |
| Option 1 - Total Revenue Impact | 38 | 524 | 501 | 682 | 1,746 |
| Underlying Cash Balance | 21 | 479 | 426 | 584 | 1,510 |

Reliability of estimate

This estimate is of low to medium reliability. It is highly sensitive to the number of cars the statutory fraction distribution and the behavioural response effects.

Data

FBT return 2008-09

Individual tax return 2006-07

The impact of Australia's Fringe Benefits Tax for cars on petrol consumption and greenhouse emissions by D Kraal, P Senarath Yapa and D Harvey

Assumptions

- The distance travelled by cars is distributed in the following proportions:

| | | | | |
|-----------------------------------------------------------|-------|-------|-------|-------|
| Annual km thresholds | 0-15 | 15-25 | 25-40 | >40 |
| Proportion of vehicles in range (as % of total using SFM) | 14.1% | 25.5% | 40.8% | 19.6% |

- Average car price of \$34,323
- Acquisition price of 90.9% of car price (to exclude GST)
- The cash out value is equal to the operating costs of the car
- 34.38% marginal tax rate for individuals that cash out
- Fuel costs of 0.20 cents per kilometre
- 5.85% deemed interest rate
- 18.75% depreciation rate
- 91.7% of pay as you go withholding collected within year
- 0% of company collection collected within year.
- 45% of cars are salary sacrificed, the remainder are employer provided cars
- The proportion of cars using the grandfathered statutory rates over time are

| | | | | |
|-------------------------------------------|---------|---------|---------|---------|
| | 2010-11 | 2011-12 | 2012-13 | 2013-14 |
| Proportion of current affected by new FBT | 80.0% | 50.0% | 20.0% | 0.0% |

Option A

- All cars which currently travel up to 25,000 kilometres per year continue to receive a car fringe benefit
- Eighty percent of individuals who have a salary sacrificed car fringe benefits where over 25,000 kilometres per year are travelled will opt out
- Thirty percent of individuals who have an employer provided car fringe benefits where over 25,000 kilometres per year are travelled will opt out
- Where an employee opts out their total remuneration package will only increase where the car was an employer provided fringe benefit.

Option B

- All cars which currently travel up to 25,000 kilometres per year continue to receive a car fringe benefit
- Seventy percent of individuals who have a salary sacrificed car fringe benefits where over 25,000 kilometres per year are travelled will opt out
- Twenty percent of individuals who have an employer provided car fringe benefits where over 25,000 kilometres per year are travelled will opt out
- Where an employee opts out their total remuneration package will only increase where the car was an employer provided fringe benefit.

Methodology

Estimated FBT collections for car fringe benefits where the statutory formula method is used were calculated for the 2010/11 budget year onwards.

where

FBT collections = (car price X acquisition price adjustment X statutory fraction – employee contributions) X number of cars X type 1 gross up rate X FBT rate

FBT collections for these years under the proposed statutory fractions were then calculated after taking into account the behavioural response by individuals who choose to cash out their benefit for extra salary, the transitional statutory fractions and the rate of new lease acquisition. The resultant impact on pay as you go withholding, company and GST collections were also estimated.

The impact on revenue is the difference between current FBT collections and the overall impact on revenue from the proposed statutory fractions.