

# DRIVING MOTOR VEHICLE FBT SAVINGS

Caratti Accountants & Business Advisors



*One of the benefits that employees/owners often value is receiving a “company car”. However, this can be a very expensive proposition for the business if structured in the wrong way, and it can in some cases even ADD taxable income to you! This is because of the operation of Fringe Benefits Tax (“FBT”) which is a tax on benefits provided to employees (including directors) and their associates which is assessed at a huge 47%. There are some exemptions available though and the right structuring of car benefits can make all the difference in avoiding this horrific tax. Getting the planning on this can make all the financial difference!*

## WHAT IS FBT?

FBT is a tax applied to most, but not all, fringe benefits provided by employers to their employees or associates (eg spouses). Fringe benefits are additional benefits given to employees, outside of their regular salary or wage. One of the most common forms of fringe benefits that we see in small business is the provision of a motor vehicle benefit.

Let’s look at an example. Say that you are the owner/director of a small business and want to buy a car costing \$50,000 (inc GST) in the business so that you can claim fuel etc. As your spouse is an associate of you (an employee), this will give rise to a fringe benefit of \$10,000 and **FBT payable of \$4,700!**

This will require you to not only pay this tax, but also give you additional compliance headaches as you will need to lodge a separate tax return annually for this.

## COMMON CAR FBT EXEMPTIONS

However, it is not all bad news. If you structure the provision of the car in such a way that you are covered by one of the exemptions, then you can still claim GST and the costs of the vehicle in the business as a tax deduction but also avoid FBT! These exemptions are.

- 1) Providing a utility, or
- 2) Providing an EV

As with anything in tax though, the devil is in the detail so let’s examine each of these exemptions in detail.



## UTE EXEMPTION

Utes may be eligible for an exemption from FBT under specific conditions. This exemption applies to Utes and other vehicles that are not designed principally to carry passengers. Typically, the following vehicles would qualify.

- A) a single cab Ute
- B) a panel van or goods van
- C) a dual cab Ute that is designed to either.
  - i) carry a load of 1 tonne or more.
  - ii) carry more than 8 passengers or
  - iii) carry less than 1 tonne but not designed for the principal purpose of carrying passengers.

The vehicle also cannot cost more than the luxury car limit, which for 2024/2025 is \$80,567 and the vehicle cannot be provided as part of a salary sacrifice arrangement.

If the type of vehicle qualifies, then there may be an exemption if the private use is considered minimal. Importantly, it is NOT an automatic exemption as many people think.

The employee is only allowed to be used for

- a) work related purposes.
- b) travel between home and work (with diversions limited to 2km)
- c) non-work-related travel that is minor, infrequent and irregular. This has been defined to mean that any private journeys are:
  - i) no more than 1,000 km in total and
  - ii) no individual trip exceeds 200km.

Employees will need to provide a signed election confirming that these conditions have been met on an annual basis.

Full details of this exemption can be found in PCG 2018/3.

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## EV EXEMPTION

In 2023, the federal government introduced changes to the FBT rules that offer a unique salary packaging opportunity in relation to Electric Vehicles (“EV”). The new exemption allows employees to enter into a salary sacrifice arrangement for the provision of an electric car without triggering FBT.

If you compare salary packaging a petrol vehicle subject to FBT and an electric vehicle which would not be

subject to FBT, the potential savings are quite impressive as can be seen here:

| Income level | Distance travelled  | Net disposable income 0     |              | Increase by packaging electric car |
|--------------|---------------------|-----------------------------|--------------|------------------------------------|
|              |                     | FBT-exempt electric vehicle | Petrol car 0 |                                    |
| \$60,000     | Under 15,000 km     | \$40,446                    | \$35,915     | \$4,531                            |
|              | 15,000 to 24,999 km | \$40,085                    | \$34,681     | \$5,404                            |
|              | 25,000 to 40,000 km | \$39,881                    | \$33,140     | \$6,741                            |
|              | Over 40,000 km      | \$39,620                    | \$31,598     | \$8,022                            |
| \$80,000     | Under 15,000 km     | \$53,247                    | \$48,845     | \$4,402                            |
|              | 15,000 to 24,999 km | \$52,885                    | \$47,582     | \$5,303                            |
|              | 25,000 to 40,000 km | \$52,681                    | \$46,004     | \$6,677                            |
|              | Over 40,000 km      | \$52,420                    | \$44,426     | \$7,994                            |
| \$100,000    | Under 15,000 km     | \$66,347                    | \$61,945     | \$4,402                            |
|              | 15,000 to 24,999 km | \$65,977                    | \$60,682     | \$5,295                            |
|              | 25,000 to 40,000 km | \$65,769                    | \$59,104     | \$6,665                            |
|              | Over 40,000 km      | \$65,501                    | \$57,526     | \$7,975                            |
| \$120,000    | Under 15,000 km     | \$79,447                    | \$75,045     | \$4,402                            |
|              | 15,000 to 24,999 km | \$79,078                    | \$73,782     | \$5,295                            |
|              | 25,000 to 40,000 km | \$78,869                    | \$72,204     | \$6,665                            |
|              | Over 40,000 km      | \$78,601                    | \$70,626     | \$7,975                            |
| \$140,000    | Under 15,000 km     | \$92,244                    | \$87,457     | \$4,787                            |
|              | 15,000 to 24,999 km | \$91,900                    | \$86,281     | \$5,619                            |
|              | 25,000 to 40,000 km | \$91,706                    | \$84,811     | \$6,895                            |
|              | Over 40,000 km      | \$91,456                    | \$83,342     | \$8,114                            |

0 The savings to net disposable income have been calculated using the 2024 marginal tax rates (including the Medicare levy), assuming the employee is not liable for the Medicare levy surcharge. These take into account the low-income tax offset (where applicable) but disregard entitlements to any other tax offsets and concessions.

0 Note that the taxable value of the car benefit, in this case, is reduced to nil via employee contributions.

Source: NTAA 2024 notes

The conditions that need to be met to qualify for this exemption include:

- 1) The car is a zero or low emissions vehicle. This includes:
  - a) Battery electric vehicles
  - b) Hydrogen fuel cell EV, or
  - c) Plug-in hybrid (if provided prior to 1 April 2025 only and binding arrangement continues past this date)
- 2) The first time the car is held or used by anyone is after 1 July 2022
- 3) The car benefit is provided after 1 July 2022
- 4) The car is for a current employee or associate, ie not future or former employees.
- 5) No luxury car tax has been paid on the vehicle (threshold for this for 2024/2025 is \$91,387)



### SO, IF YOU ARE PLANNING TO PROVIDE A MOTOR VEHICLE TO YOUR EMPLOYEE ...

Then please speak to me beforehand so that we can structure this in the most tax effective way possible and avoid any nasty FBT surprises!

20<sup>TH</sup> May 2024

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