

Williams Chartered Accountants

Williams Chartered Accountants Limited
27 Norman Spencer Drive
Manukau City, Auckland 2241
P O Box 76301, Manukau City, Auckland 2241
Phone (09) 262 2552
Fax (09) 262 2553
Email admin@williamsaccountants.co.nz

FRINGE BENEFIT TAX (FBT)

If you're an employer and you provide benefits to your employees over and above their salary or wage (fringe benefits/perks), you may need to pay FBT.

What is FBT?

While the cash benefits you give employees (eg salary or wages) get taxed through income tax, the non-cash benefits don't. FBT was introduced to tax these non-cash benefits (fringe benefits). Now, all employee benefits – both cash and non-cash – get taxed equally, no matter how they're provided.

Types of fringe benefits

There are four main types of fringe benefits. If any of these are received by your employees as a result of their employment, you may need to pay FBT:

1. Motor vehicles available for private use
2. Free, subsidised or discounted goods and services
3. Low-interest loans
4. Employer contributions to funds, insurance and superannuation schemes.

Cash benefits

You don't have to pay FBT if you make a cash payment to an employee. Instead, you treat the cash payment as part of the employee's salary or wage and make normal employee deductions (like PAYE).

Providing employees (or shareholder-employees) with vehicles, and providing free, subsidised, or discounted goods or services to employees are possibly the most common types of fringe benefits.

Motor Vehicles

As an employer, if you make a vehicle available to an employee to use privately you'll have to pay FBT.

You pay FBT on vehicles made available to:

- Employees (and their associated persons), and
- Shareholder–employees

Sole traders and partners in a partnership don't pay FBT on business vehicles they use. Instead they make income tax and GST adjustments for private use.

Misconception: You only pay FBT on a motor vehicle if an employee uses it privately.

The reality is that as long as a motor vehicle is available for private use, FBT is payable, whether they actually use it or not.

When motor vehicles are exempt from FBT:

Vehicles with a gross laden weight of more than 3,500 kilograms are not subject to FBT.

Vehicles are also exempt from FBT if they meet all of the following conditions:

- The principal design of the vehicle isn't for carrying passengers.
- The exterior of the vehicle permanently and prominently displays business signage.
- You notify employees in writing that the vehicle is available only for travel between home and work and travel incidental to business, eg passing by the bank on the way home from work.
- You carry out regular record checks to make sure employees are following the vehicle restrictions.

You don't have to pay FBT for the days a motor vehicle is:

- On an emergency call
- Used for out of town travel, or
- Unavailable to the employee for at least 24-hours, for example if the vehicle has broken down or is being repaired.

Close Companies

For the 2017-18 and later income years some close companies can elect to opt out of the FBT rules if they have one or two motor vehicles available for private use by their shareholder-employees. If you choose not to use the FBT rules you'll have to make an adjustment for private use of the vehicle in your income tax return.

Free, subsidised or discounted goods and services

You can provide up to \$300 of free, subsidised or discounted goods and services per employee per quarter without having to pay FBT.

As soon as the value of the benefits goes over \$300 per employee per quarter, the full value of the benefit is subject to FBT. The \$300 exemption isn't deducted first.

If you file annual returns, you have a yearly exemption of \$1,200 for each employee.

Maximum exemption

The maximum exemption you can claim is \$22,500 per year.

If the value of the benefits you provide goes over \$22,500, then you must pay FBT on the total value of the benefits for the year in the current quarter.

Other common items exempt from FBT

- Distinctive work clothing: If you provide distinctive work clothing it will be exempt from FBT. This means any single item of clothing that forms part of a uniform identifiable with you (the employer) because of logos, pattern, colour scheme or style.
- Car parks: You don't have to pay FBT if:
 - You lease a car park for an employee where you have the exclusive right to occupy the car park, or
 - You provide an employee with a car park on your premises.
- Frequent flyer and membership reward schemes: If an employee joins a frequent flyer or membership reward scheme for their own use you don't have to pay FBT. FBT may apply if you enter into an arrangement with the promoter of the scheme to benefit employees.
- Charitable organisations: Generally, charities are exempt from paying FBT on benefits provided to employees while they're carrying out the organisation's charitable activities.