Debt Waiver and loan fringe benefit

What is a debt waiver fringe benefit?

A debt waiver fringe benefit arises where the University waives or forgives the whole or part of an employee's debt. For example, if VU sold goods to an employee and later tell them not to bother about paying the invoiced amount, then this gives rise to a debt waiver fringe benefit.

A debt owed by an employee that is written off as a genuine bad debt and in accordance with VU's policy and procedures is not a bad debt waiver fringe benefit.

How is FBT calculated?

FBT = Taxable Value (amount of the debt that is waived) X 1.8868 (Gross up factor) X 47% (Rate of FBT)

For example, if VU releases an employee from an obligation to repay a loan of $1,000, the taxable value of the debt waiver fringe benefit is $1,000. Where the amount waived includes an amount of principal and accrued interest (for example, $1,000 principal and $100 interest) the taxable value of the debt waiver fringe benefits is the total amount waived – that is, $1,100 and the FBT is $975 i.e. $1,100 X 1.8868 X47%.

What is a loan fringe benefit?

A loan fringe benefit arises where the University provides a loan to an employee and charges a low rate of interest (or no interest) during the FBT year. A low rate of interest is one that is less than the statutory rate of interest (also known as the benchmark interest rate). The statutory rate is published by the ATO each year before the beginning of the FBT year in a Taxation Determination. The statutory rate for 2018-19 FBT year is 5.20%.

How is FBT calculated?

FBT = Taxable Value (read below) X 1.8868 (Gross up factor) X 47% (Rate of FBT)

The taxable value of a loan fringe benefit is the difference between the interest that would have been accrued during the FBT year if the statutory interest rate had applied to the outstanding daily balance of the loan, and any interest that actually accrued. For example, on 1 April 2018, an employee was given a $50,000 loan at an annual interest rate of 5% (payable six monthly). No repayment of principal was required during the next twelve months. The statutory interest rate for 2018-19 FBT year is 5.20%.

The notional interest on such a loan would be $2,600 (i.e. $50,000 X 5.20%)

The actual interest for the 2018-19 FBT year is $2,500 (i.e. $50,000 X 5%). The difference of $100 (i.e. $2,600 - $2500) would be the taxable value and $88.68 ($100 X 1.8868 X 47%) would be the FBT on the loan fringe benefit.