

POLICIES AND ASSOCIATED PROCEDURES

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POLICY NAME:	Fringe Benefits Tax (FBT)
DATE APPROVED:	19 April 2011
POLICY TYPE AND CATEGORY:	General (Resourcing and Finances)
RESPONSIBLE OFFICER:	General Manager – Financial Operations
FIRST EFFECTIVE FROM:	21 December 2005

1.0 PURPOSE

The purpose of this document is to provide a general overview of Fringe Benefits Tax ('FBT') and its applicability to Victoria University ('the University'). The document also outlines policies and procedures designed to administer and account for FBT within the University. The document should be the first point of reference in regards to the provision of benefits to employees and the treatment of fringe benefits. Where the issue in question is outside the scope of this document all queries should be referred to the Taxation Accountant - Finance.

2.0 BACKGROUND

The Department of Treasury & Finance ('DTF') has developed a Tax Compliance Framework as a means of managing and addressing the risks arising from tax compliance. A review of our tax compliance in comparison to the standards set by the DTF framework has identified a need for a formal documented FBT policy. A FBT policy is required to provide guidelines to staff and assist in minimising the risk of non-compliance with FBT legislation.

3.0 DEFINITIONS

- **Associate** - An associate is any person or entity closely associated with an employee. A formal definition is contained in *section 26AAB of the Income Tax Assessment Act 1936 and is modified by sections 148, 158 and 159 of the Fringe Benefits Tax Assessment Act 1986.*
- **Available for private use** – A car is considered to be available for private use if:
 - it is used for private purpose; or
 - it is garaged at or near an employee's home; or
 - the car is not kept at work, and the employee (or their associate) is allowed to use it

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for private purposes.

- **Benefit** - A benefit includes any right, privilege, service or facility.
- **Car** - The following types of vehicles (including four-wheel drive vehicles) are cars:
 - motor cars, station wagons, panel vans and utilities (excluding panel vans and utilities designed to carry a load of one tonne or more); and
 - all other goods-carrying vehicles designed to carry less than one tonne; and
 - all other passenger-carrying vehicles designed to carry fewer than nine occupants.
- **Employee** - Includes current, future or former employees. An employee is generally someone who receives, or is entitled to receive, salary and wages in return for work or services provided, or for work under a contract that is wholly or principally for the person's labour. For FBT, 'employees' includes company directors, office holders, common law employees and recipients of compensation payments.
- **Employee Contribution** - This is also known as a recipient's payment or recipient's rent. An employee or recipient's contribution generally refers to the amount of consideration paid to an employer or provider of the benefit by an employee or recipient in respect of the fringe benefit. It is reduced by the amount of any reimbursement paid to the employee or recipient in respect of that consideration. The employee or recipient's contribution must be made from the employee's after-tax income.
- **Entity** - an individual, a body corporate, a corporation, a partnership, any other unincorporated association or body of persons, a trust or a superannuation fund and any kind of legal person.
- **Excluded Fringe Benefits** - These are benefits that are excluded from the reportable fringe benefits arrangements. For example meal entertainment and car parking benefits.
- **Exempt Benefits** - Exempt benefits are benefits that are not considered to be fringe benefits and therefore not subject to FBT.
- **FBT** – Fringe Benefits Tax (FBT) is a tax payable by the employer on the value of certain benefits, known as "fringe benefits", that have been provided to their employees or to associates of those employees in respect of their employment. FBT is calculated at 46.5% of the grossed up taxable value of a fringe benefit.
- **FBT Year** – The FBT year runs from 1 April to 31 March.
- **Fringe Benefit** - A fringe benefit is a benefit provided in respect of employment. This effectively means a benefit provided to somebody *because they are an employee*. Fringe benefits include benefits provided to an associate of the employee. The 'employee' may even be a former or future employee.
- **Grossed-up Taxable Value** – this is the taxable fringe benefit amount multiplied by the relevant grossed-up rate. If the taxable value of fringe benefits is GST-creditable benefits then we use the grossed-up rate of 2.0647 and if they are not GST-creditable benefits we use the grossed-up rate of 1.8692. This value is multiplied by the FBT tax rate to calculate the tax payable.
- **GST** - Goods and Services Tax. The GST is a broad-based consumption tax of 10% per cent on most supplies of goods and services consumed in Australia.
- **GST Input Tax Credits** – This is the entitlement to claim GST included in the purchase price of many goods and services used in the business.
- **Market Value** - The arm's length price payable by the general public in a normal commercial transaction.

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- **Meal Entertainment** - The provision of meal entertainment means the provision of:
 - entertainment by way of food or drink; and
 - accommodation or travel in connection with, or to facilitate the provision, of such entertainment; and
 - the payment or reimbursement of expenses incurred in obtaining something covered by the above.
- **Otherwise Deductible Rule** - Broadly, this means that the taxable value of a benefit may be reduced by the amount which an employee would have been entitled to claim as a once-off income tax deduction in their personal tax return if the benefit was not paid for, reimbursed or provided, by the employer.
- **Place of Residence** - It means a place where a person lives or has sleeping accommodation. It does not matter whether it is on a permanent or temporary basis. It also does not matter whether the person shares the place with someone else.
- **Reportable Fringe Benefits Amount** – where an employee receives certain fringe benefits and the total exceeds \$1,000 for the FBT year, the grossed-up amount has to be shown on the employee's payment summary. This is the reportable fringe benefits amount (RFBA).
- **Taxable Value** - This is the value of a fringe benefit before it is grossed up. The manner of determining the taxable value of a fringe benefit is prescribed in the FBT legislation. Different valuation rules apply to different classes of benefits.
- **Type 1 Gross-up Rate** - The type 1 gross-up rate is used where Victoria University (or other provider of the benefit) is entitled to claim an input tax credit on the benefit provided. The rate is 2.0647.
- **Type 2 Gross-up Rate** - The type 2 gross-up rate is used where Victoria University (or other provider of the benefit) is **not** entitled to claim an input tax credit on the benefit provided. The rate is 1.8692.
- **Usual Place of Residence** – An employee is regarded as living away from their usual place of residence if they are required to do so in order to perform their employment-related duties and could have continued to live at the former place if they did not have to work temporarily in a different locality. The term usual place of residence refers to where the employee resides for income tax and fringe benefit tax purposes.

4.0 KEY WORDS

- Benefits
- Car
- Employee
- Entertainment
- FBT
- Fringe Benefit
- Gross up rate
- Reportable Fringe Benefits
- Travel
- Tax

5.0 POLICY

The University must comply with the obligations arising from Fringe Benefits Tax Assessment Act 1986 ('FBTAA') and all associated ATO Tax rulings. All staff involved in any University activities potentially affected by the FBT legislation must familiarise themselves with the requirements of the FBT Act and its effect on University operations as detailed in this policy, and in particular, the effect of the FBT in their area of work. For example, employee's who organise social events need to be aware of the FBT costs associated with organising such an event. Any FBT related queries should be directed to the Taxation Accountant – Finance.

6.0 PROCEDURES

6.1 WHAT IS A FRINGE BENEFIT?

A fringe benefit is a benefit provided in respect of the employee's employment. Fringe Benefit Tax is a tax payable by the University on the value of fringe benefits that the University, its associates or third parties by arrangement, provide to its employees or to associates of employees.

6.2 CALCULATION OF FBT AND THE EFFECT OF GST

The University assesses and pays FBT on an annual basis on the benefits provided during the FBT year (1 April to 31 March). FBT is on-charged to individual cost centres in June for the preceding FBT period. It is each department's responsibility to check the FBT charged to their cost centre. If the department realise that the charges are incorrect they must notify the Taxation Accountant (Finance) as soon as possible. Finance will then contact the Australian Taxation Office and requests an amended assessment in November each year for the preceding FBT year.

The rate of FBT is 46.5% (alternatively expressed as 0.465) of the "grossed-up taxable value" of the fringe benefit. When the University provides taxable fringe benefits to employees, there are some distinct steps involved in calculating the FBT liability. The introduction of the goods and services tax (GST) resulted in the application of two different gross-up rates being applied (depending on the ability to claim tax credits relating to the benefit) when calculating FBT.

6.2.1 Type 1 gross-up rate of 2.0647

The type 1 gross up rate is to be applied in respect of fringe benefits that are GST creditable benefits. In very basic terms this is where the University is entitled to input tax credits in respect of the acquisition or importation of "the thing" that results in the benefit. Note that there must only be an entitlement for the University to claim an input tax credit. For example, where the University has not claimed an input tax credit because it does not have a valid tax invoice, the benefit will still be a type 1 fringe benefit as the University has an entitlement to claim an input tax credit once it obtains a valid tax invoice.

The FBT of a type 1 fringe benefit is calculated as follows:

- Taxable value of fringe benefit x **2.0647** (Gross up rate) x 0.465 (Rate of FBT)

Most benefits provided by the University are grossed-up at the type 1 gross-up rate as the University will most likely have been entitled to claim input tax credits in respect of the benefits provided to staff.

Example 1 – Calculating FBT using Type 1 gross-up rate

David Jones, a University employee is supplied with a fringe benefit valued at \$500, the University was entitled to claim a GST input tax credit when it first acquired the good. FBT will therefore be calculated using the Type 1 gross-up rate i.e. $\$500 \times 2.0647 \times 0.465 = \516.33 (fringe benefits tax payable relating to this benefit is charged to the cost centre that the employee works for.)

6.2.2 Type 2 gross-up rate of 1.8692

The type 2 gross up rate is applied when the benefit is not a type 1 benefit. In basic terms the type 2 gross-up rate is applied where there is no entitlement to an input tax credit in respect of the purchase of the underlying fringe benefit.

The FBT of a type 2 fringe benefit is calculated as follows:

- Taxable value of fringe benefit x **1.8692** (Gross up rate) x 0.465 (Rate of FBT)

6.3 REPORTABLE FRINGE BENEFITS

Where the taxable value of employee fringe benefits **exceeds \$2,000** (other than excluded fringe benefits) for the FBT year ending 31 March, that amount, after being grossed up by the type 2 gross up rate (1.8692), will be stated on the employees PAYG Payment Summary. The reportable fringe benefits value for employees receiving type 1 benefits will need to be recalculated using the type 2 grossed up rate for PAYG payment summary reporting purposes. Even though a reportable fringe benefit is included in a payment summary, it is not included in the employee's assessable income. It is, however, included in a number of income tests relating to the following government benefits and obligations:

- Medicare levy surcharge
- Mature age worker tax offset
- Deduction for personal superannuation contributions
- Tax offset for eligible spouse superannuation contributions
- Super Co-contribution
- Higher Education Contribution Scheme (HECS) and Higher Education Loan Programme (HELP) repayments
- Child support obligations and
- Entitlement to certain income-tested government benefits (Family Tax Benefit, Child Care Benefit and for the parental income test for the youth allowance)

Car parking and meal entertainment fringe benefits are **excluded** from the above reporting requirement.

Example 2 – Employee's Reportable Fringe Benefits Added to PAYG Payment Summaries

Mark Smith's PAYG Payment Summary has recorded a reportable fringe benefit amount ('RFBA') of \$6,000. His taxable income for the year was \$50,000. For the purposes of income tests associated with the additional levies and surcharges concessions and liabilities referred to above, Mark's RFBA will be added to his taxable income to arrive at a adjusted income figure of \$56,000.

It is important to note that Mark will not pay income tax or primary Medicare levy on his RFBA.

6.4 TYPES OF FRINGE BENEFITS

There are several categories of fringe benefits that the University might provide to its employees and their associates. The various categories of fringe benefits are listed below:

- 6.4.1 Car benefits
 - 6.4.2 Expense payment benefits
 - 6.4.3 Housing benefits
 - 6.4.4 Living-Away-From-Home Allowance benefits
 - 6.4.5 Property benefits
 - 6.4.6 Tax-Exempt body entertainment benefits
 - 6.4.7 Car parking benefits
 - 6.4.8 Residual benefits
 - 6.4.9 Debt Waiver & Loan benefits
- Refer to section 6.5 for [Exempt fringe benefits](#)

6.4.1 Car Fringe Benefits

The existence of a car fringe benefit is determined on a daily basis and arises when a University motor vehicle, owned or leased, is used by an employee or their associate for private purposes or is available for such use. Examples of car fringe benefits include a motor vehicle provided to an employee as part of a remuneration package, or a pool vehicle taken home by an employee overnight.

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Taxable Value of Car Fringe Benefits

There are two alternative methods for valuing car benefits, the statutory formula and the operating cost method.

- **The statutory formula method** – the taxable value of the car fringe benefit is a percentage of the car's value. This percentage varies with the total distance travelled by the car during the FBT year (regardless of whether or not it is private travel). The greater the distance travelled, the lower the percentage and thus the taxable value.
- **The operating cost method** – the taxable value of the car fringe benefit is a percentage of the total costs of operating the car during the FBT year. The percentage varies with the extent of actual private use. The lower the incidence of actual private use, the lower the taxable value.

Choosing the valuation method

The University policy is to use the Statutory Formula Method for calculating FBT on car fringe benefits. In certain circumstances, where the vehicle is predominantly used for business purposes, the Finance department may permit the use of the operating cost method but permission must be first sought from the Taxation Accountant - Finance.

Statutory Formula Method

Under this method the taxable value of the benefit is determined by the following statutory formula:

$$\text{Taxable value} = A \times B \times \frac{C}{D} - E$$

Where: *A* is the *base value* of the car (GST Inclusive);
B is the *statutory fraction*;
C is the *number of days* during the year on which a car benefit was provided;
D is the *amount of days in the FBT year* (i.e., 365 days or 366 in a leap year);
E is the amount of any recipient's payment (i.e., employee contribution).

6.4.1.1 Component "A": Base Value of Car

This varies depending on whether the motor vehicle is owned or leased.

Car originally owned

The base value is the cost price of the car inclusive of GST. The cost price is the expenditure directly attributable to the acquisition and delivery of the car (including accessories), but excluding registration and stamp duty costs.

Car originally leased

The base value of a leased car is the cost price of the car to the lessor, inclusive of GST. This value can normally be obtained from the lease company at the request of the University. It is to be noted that the base value of the car is the cost price when the University first held the car. The base value will **not change** if the car is re-financed.

Reduction the base value of the car after four years

The base value of the car can be reduced by one third in the FBT year that commences after the car has been owned or leased for four full FBT years. This reduction applies only once to the relevant car and the reduced base value can be used for subsequent years.

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6.4.1.2 Component "B": Statutory Fraction

The statutory fraction varies according to the number of annualised kilometres travelled by the car during the year. Where the provider of the benefit held the car for only part of the year, the number of whole kilometres travelled during that time is annualised to reflect the distance that would have been travelled if the car had been held during the whole year with the same pattern of use. The fractions for the FBT purposes are:

Total number of kilometres travelled during the FBT year (annualised)	Statutory fraction
Less than 15,000	26%
15,000 to 24,999	20%
25,000 to 40,000	11%
More than 40,000	7%

Use the following formula to calculate an annualised kilometre figure:

$$\frac{A}{B} \times C$$

Where A = the number of whole kilometres travelled in the period during the year the car was owned or leased;

B = the number of days in that period;

C = the number of days in the FBT year.

Example 3 – Annualised Kilometers

If a car is owned or leased for part of an FBT year, we need to work out how many kilometres the car would have travelled if it was owned or leased for the whole FBT year.

For example, if the University provides Judy Smith with a car fringe benefit from 1 November 2004. At 31 March 2005 (FBT year end), the vehicle had travelled 12,000 kilometres. The vehicle's annualised kilometres would be 29,007 kilometres. [(12,000km/151 days) x 365 days]

Employee (Drivers) obligations relating to odometer readings

- **Salary Packaged Vehicles**

Employees who have received motor vehicles as part of a salary packaging arrangement are obliged to supply odometer readings as requested by the Human Resources Department as at the 31st of March of every year. Employees are required to complete the Motor Vehicle Declaration Form as at 31st March of each year and forward the completed form to the Salary Packaging Officer no later than 7th April of each year. Employees should also ensure they have travelled the required kilometres (annualised) as nominated in their package contract. Failure to comply with the previous two requirements could result in employees incurring higher FBT than has been allowed for through their salary deductions. Note: where the annualised kilometres travelled are less than the nominated kilometres, employees must report the actual closing odometer readings. Disclosing an incorrect odometer reading will result in penalties to the University. These penalties will be passed on to the employee. For more information on these issues please contact the Salary Packaging officer.

- **University Supplied Vehicles**

University employees who are provided with University owned or leased vehicles as part of their salary arrangements or who have access to University vehicles in the evenings, should ensure their odometer readings are forwarded to Finance on the 1st of April of every year (as will be requested by the Finance Department in writing once a year). Employees are required

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to complete [Motor Vehicle Declaration Form](#) or refer to [Form 12.1](#) for a copy of the form. Odometer readings should also be recorded on disposal every time a vehicle is traded in for a new one. Drivers should be aware of the number of kilometres they have travelled throughout the year, ensuring the vehicle travels the kilometres specified and allowed for in their employment contracts.

In general, drivers should be aware of circumstances that could lead to FBT savings when the annual kilometres travelled are approaching the next highest band.

FBT TIP – Reducing Motor Vehicle FBT

Sam Jones had, on the 25th of March travelled 24,800 km's and had a car with a \$30,000 base value for FBT purposes; by travelling an extra 200 km's before the 1st April, the University (and Sam) would save \$2,788 in FBT as the car would move into a higher statutory kilometre band (25,000 – 40,000 km), hence incurring a 11% statutory fraction as opposed to the 20% fraction.

FBT Warning – Maximum 26% statutory percentage could be imposed where sufficient records are not kept

Where opening and closing odometer readings are not kept, the Deputy Commissioner of Taxation may impose the maximum 26% statutory percentage against the base value of the car.

- **Staff Use of University Pool Vehicles**

University pool vehicles taken home overnight for work related purposes are deemed to be available for private use and will therefore be regarded as a fringe benefit **and subject to FBT**. Vehicles taken home on a particular night will be deemed as a fringe benefit provided over two days. For example, a car is taken home by an employee on a Monday night for a business trip to be undertaken on Tuesday morning, the vehicle is regarded as being available for private use both on the Monday and Tuesday. Assessed FBT will be on charged to the staff member's cost centre.

For University pool vehicles, the operating cost method is used therefore pool vehicles used exclusively for work related purposes do not attract FBT, this will however need to be substantiated through the maintenance of a logbook. Facilities Management is responsible for ensuring proper logbook records are maintained, recording both business and private trips. A logbook must be maintained for each pool vehicle in the University fleet, employees must record each trip made into the logbook. The logbook can be found in the glove box of each car. Any trips not adequately recorded will automatically be deemed private in nature.

Facilities Management must notify Finance no later than April 15th each year of any private use that occurred in the preceding FBT year.

6.4.1.3 Component "C": Number of days benefits provided

FBT is payable only on the number of days that a car is available for private use and is provided to an employee during the FBT year. The taxable value of a car benefit can therefore be reduced by the number of days the benefit was **not** provided during the FBT period. In the following circumstances it may be argued the car is not available for private use:

- **Car left at a commercial storage facility** – e.g. car left at an airport parking facility while an employee is travelling interstate or overseas. Stringent conditions must first be satisfied for this requirement to apply. This includes the storage facility must not be in the vicinity of the employee's place of residence and custody and control of the car must be removed from the employee or their associates (e.g. keys handed to the car park facility, providing

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the commercial storage facility holds the keys on behalf of the University and is acting on behalf of the University and not the employee).

- **Car left at panel beaters while being repaired** – Where a car is damaged in an accident and requires panel beating to restore it to its original condition, a car fringe benefit does not arise during the period the car is kept at the panel beaters on behalf of the University. Note: if the car is being repaired and is dropped off and picked up on the same day the employee still has use of the car on that day. In this regard, a car needs to be in for repairs for 3 days, the middle day not being available for private use. A separate benefit will however arise if either the panel beater or the University provides a replacement car.
- **Car impounded at employers business premises** – Where a car is genuinely impounded on the University's premises and not otherwise available for any other employee or associate to use for private purposes, the number of days the car is available for use can be reduced. This could occur when an employee terminates his/her employment, travels interstate or overseas or is away on long service, annual or sick leave. In all cases the keys will need to be held in safekeeping at the University's premises. Employees are responsible for providing written advice to the Taxation Accountant - Finance Department of days where vehicles have not been available for private use as specified above.

6.4.1.4 Component "D": number of days during the year

The number of days during the FBT year concerned and that is from the beginning 1 April and ending 31 March, that is 365 or 366 in a leap year.

6.4.1.5 Component "E": recipient's payment

The taxable value of a car fringe benefit can be reduced by the amount of any "recipient's payment", often called [employee contributions \(refer 6.7\)](#). These can be done in two ways namely:

- 1) The employee personally incurs car expenses (refer to the table below, to check what is considered to be an employee contribution) during the FBT year, for which they receive no reimbursement. However the employee must provide the University with documentary evidence of the expenditure (for example receipts or invoices). In the case of petrol and oil costs, a Fuel Expenses Declaration Form is sufficient instead of receipts. Refer to [Form 12.2](#) for a copy of the declaration form.

Type of car expenses paid by the employee	Employee Contribution?	
	Yes	No
Petrol and oil	✓	
Car servicing	✓	
Auto club fees e.g. RACV, NRMA	✓	
Road and bridge tolls (i.e. E-tag and M1 tolls)		✓
Car parking fees		✓
Car parking fines		✓
Insurance excesses on motor vehicle claims	✓	
Non-business accessories (e.g. sunroof)		✓
Car repairs (assuming repairs and not improvement)	✓	
Car washes	✓	
Car registration	✓	
Car air fresheners and deodorisers	✓	
Car wax and leather production products	✓	
Speeding fines		✓

- 2) The employee can make an after-tax contribution to the University. The after-tax contribution can take the form of a direct cash payment to the University (including a weekly, fortnightly, etc. deduction from the employee's net take home pay) and are subject to GST. Refer to [6.7 Employee Contributions](#) for further information.

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Transaction Processing

Original Expenses - Charge to	⇒ Various (i)
Assessed Tax Charged to Natural Account "FBT – Motor Vehicles"	⇒ 3834 (Finance use)
Subject to Employee PAYG Payment Summary Reporting	⇒ Yes

(i) Expenses relating to the provision of motor vehicles e.g. lease charges and fuel should be charged to the relevant natural accounts relating to the nature of the expense being charged. The Finance Department identifies the provision of motor vehicles expenses through means outside of the University's general ledger.

The Finance Department will calculate the FBT payable for each motor vehicle on annual basis (as at 31 March each year). For University owned or leased motor vehicles, the tax will be paid and charged to each driver's cost centre code and natural account as indicated above.

The Taxation Accountant - Finance will supply Human Resources with a breakdown of Motor Vehicle Fringe Benefits for the preceding FBT year on or before the 15th of June every year. The values to be reported will be the grossed up fringe benefits taxable amount. These will be reported on employees' PAYG Payment Summaries as part of the new FBT reporting requirements. The total value reported would be reconciled back to the last FBT return as lodged.

6.4.2 Expense Payment Benefits

6.4.2.1 What is an expense payment fringe benefit?

An expense payment fringe benefit arises when:

- The University reimburses an employee or their associate for expenses they incur; or
- The University makes a payment to a *third party* in satisfaction of expenses incurred by the employee or their associate.

In either case the expenses may be business expenses or private expenses, or a combination of the two.

6.4.2.2 Examples of expense payment fringe benefits:

Below are examples of expense payment fringe benefits and their classification as type 1 or type 2 fringe benefits. If any of these benefits are provided the expense must be posted to natural account 3808.

<u>Benefit</u>	<u>Benefit Type</u>
• Children's school fees:	
○ Pre-school fees	Type 2
○ Primary, secondary, tertiary course fees	Type 2
○ School books & school uniform	Type 1
• Credit card payments	Type 2*
• Electricity or gas (heat and power)	Type 1
• Groceries	Type 1 or Type 2
• Home mortgage or other private loans	Type 2
• Medical and health benefits:	
○ Chiropractic	Type 2
○ Dental	Type 2
○ Optometry	Type 2
○ Psychology	Type 2
○ Herbal medicine (including traditional Chinese herbal medicine)	Type 2

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- Personal car expenses. Type 1
- Health insurance premiums Type 2
- Life insurance premiums Type 2
- General insurance premiums Type 1
- Private telephone charges Type 1
- Rates and land taxes Type 2
- Employee education fees with no GST Type 2
- Employee education fees with GST Type 1
- HECS Fees Type 2

For the purposes of calculating FBT on the listed expenses it is important to determine if the benefits are an input taxed supply or a GST-free supply. Refer to the GST policy for further information.

Input Taxed and GST free supplies have no GST payable on the supply and therefore the University is not entitled to an input tax credit. Hence, the type 2 gross up rate is applied in calculating a taxable value of the benefit.

* The reimbursement or payment of an employee's credit card liability to an agreed value will be a financial supply and therefore a type 2 benefit. If however the reimbursement is for a specific expense on the credit card the question of whether to use type 1 or type 2 gross-up rate will depend on the GST status of that particular expense being paid or reimbursed.

Transaction Processing

Original Expense - Charge to "FB – Expense Payment" ⇒ 3808

Assessed Tax Charged to Natural Account "FBT – Expense Payment" ⇒ 3828 (Finance use)

Subject to Employee PAYG Payment Summary Reporting ⇒ Yes

6.4.2.3 Otherwise Deductible Rule

If an employee incurred an expense solely in performing employment-related duties, (e.g. work-related telephone expenses) the expenditure would be deductible to the employee for income tax purposes. Under the otherwise deductible rule, if the University reimburses the employee for all or part of these expenses then the taxable value of the expense payment fringe benefit would be nil. This is provided that the employee would only be entitled to a once off deduction in respect of the expense had they incurred the expense. Further, the employee must complete and return to the University an otherwise deductible declaration (refer [Form 12.3](#)). This declaration is not required where employees complete a [Staff Reimbursement Form](#) which has the necessary declaration incorporated into the form. These expenses should be posted to the relevant natural account code.

6.4.2.4 Payments that are not expense payment fringe benefits:

Payment of an allowance

An allowance is not a reimbursement and therefore not an expense payment fringe benefit and is generally subject to income tax. Tax ruling TR92/15 defines an allowance, as "A payment is an allowance when a person is paid a definite predetermined amount to cover an estimated expense". It is paid regardless of whether the recipient incurs the expected expense. The recipient has the discretion whether or not to expend the allowance.

TR 92/15 further defines a reimbursement as, "A payment is a reimbursement when the recipient is compensated exactly (meaning precisely, as opposed to approximately), whether wholly or partly, for an expense already incurred although not necessarily disbursed." In general, the employer considers the expense to be its own and the employee incurs the expenditure on behalf of the employer. A requirement that the employee vouch expenses

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lends weight to a presumption that a payment is a reimbursement rather than an allowance. A requirement that the recipient refunds unexpended amounts to the employer adds further weight to that presumption." Reimbursements that are **not** work related are subject to FBT as an expense payment fringe benefit.

6.4.2.5 Specific exempt expense payment fringe benefits

- a) Most reimbursements to employees on a cents per kilometre basis for expenses of operating a car that is owned or leased by the employee. However the payment will be assessable income of the employee for income tax purposes and the employee will have to satisfy the income tax substantiation requirements relating to car expenses in order to obtain an offsetting deduction.
- b) Reimbursement or payment of accommodation expenses incurred solely because the employee is required to live away from home to perform the duties of employment. However for this exemption to apply employees are required to complete a 'Living Away from Home Allowance Declaration Form' refer to [Form 12.4](#) for a copy of the form.
- c) Laptop computer - the exemption is limited to one laptop computer per employee per year.
- d) A potable printer for use with a Laptop computer (but only from 1 April 2006)
- e) An electronic diary, a personal digital assistant or similar item (but only from 1 April 2006)
- f) Mobile phone – if the mobile phone is primarily for use in the employee's employment.
- g) Taxi travel – is an exempt benefit if the travel:
 - is a single trip beginning or ending at the employee's place of work; or
 - arises as a result of sickness or injury to the employee.Other non-work-related taxi travel generally gives rise to an expense fringe benefit.

6.4.3 Housing Fringe Benefits

A housing fringe benefit arises where the University grants an employee or their associate a "housing right" (i.e. a right to occupy or use a unit of accommodation as a usual place of residence). The right must exist for more than one day. It may cover any type of accommodation, as long as it is the employee's usual place of residence e.g. house, unit, flat, hotel or motel. If the accommodation is not the employee's usual place of residence, the benefit will not be a housing benefit but instead will be a residual benefit, which is discussed later in section 6.4.8.

Housing benefits are valued differently depending on whether the housing is in or outside of Australia.

6.4.3.1 Housing Fringe Benefit Provided Outside Australia

The taxable value is the market value of the right to use this accommodation reduced by any rent or other consideration paid by the employee.

6.4.3.2 Housing Fringe Benefit Provided in Australia (and non remote)

The taxable value depends on the type of accommodation being provided. If the accommodation is a motel, hotel, hostel or guesthouse the accommodation is valued at the prevailing market valuation for similar accommodation. If the University is in the business of providing similar accommodation to members of the public it is valued at 75% of the amount that the public would pay for the accommodation less any employee contribution toward the cost of the accommodation. Tax Ruling TR2000/10 states it is reasonable for a University to consider students to be a particular class of customers and hence members of the public. Therefore the University's cost of accommodation as provided to its students may be used to determine the taxable value of accommodation provided to the University's employees.

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For any other type of accommodation e.g. residential house or unit, the value is the market value of the right to occupy the accommodation (e.g. rental value as obtained from a registered real estate agent) multiplied by ATO indexation factors (if required).

Accommodation provided in a remote area of Australia is exempt from FBT.

Transaction Processing

Original Expense -Charge to	⇒	Various(i)
Assessed Tax Charged to Natural Account "FBT – Housing"	⇒	3831 (Finance use)
Subject to Employee PAYG Payment Summary Reporting	⇒	Yes

(i) Expenses relating to the provision of housing benefits should be charged to the relevant natural accounts relating to the nature of the expense being charged. Organisational units that have provided housing benefits during the FBT must notify the Finance Department by 7 April each year.

6.4.4 Living Away From Home Allowance Fringe Benefits

The payment of a living away from home allowance (LAFHA) is a living away from home allowance fringe benefit.

For FBT purposes, a LAFHA is an allowance paid to an employee to compensate for additional expenses incurred and any disadvantages suffered because the employee is required to live away from their usual place of residence while performing their employment related duties.

The FBT Act only contemplates the payment of a LAFHA by an employer to an employee. Payments made to associates of employees or by associates of employers would not be regarded as LAFHA's and would not warrant concessional tax treatment. Such payments may therefore give rise to unintended income tax consequences for both the University and the recipient. Similarly, if the payment does not satisfy the definition of a LAFHA, it will not fall under the FBT legislation.

6.4.4.1 When is an employee regarded as living away from home?

An employee is regarded as living away from home when an employee moves to take up temporary residence away from what is considered their 'usual place of residence'. The existence of any or a combination of the following factors would provide evidence of living away from home.

- The employee is required to live close to a new (but temporary) work location;
- Family members accompany the employee;
- The employee is absent from his/her usual place of residence for a limited or finite period of time and has clear intention/expectation of returning back home on cessation of work at the temporary location; or
- The use of longer-term accommodation while away (e.g. lease of residential premises or long term hotel accommodation as opposed to short term accommodation at a hotel).

6.4.4.2 'The 21 Day Test'

Generally, if an individual stays at a particular location for more than 21 Days, coupled with evidence of the above conditions, they may be regarded as **living away from home**. Payments made to employees under these circumstances may be subject to FBT. If an individual were on work related travel for less than 21 days they would generally be regarded as **travelling on work**. In this case, expenses incurred by the employer in respect of

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transport, accommodation, meals and incidentals, would not be subject to FBT, due to the application of the "otherwise deductible" rule.

The payment of a per diem is also subject to the 21-Day Test and could therefore be subject to FBT where an employee is deemed to be living away from home as opposed to travelling for work.

It should however be noted that the 21 day test should not be applied strictly as there have been many examples where an employee will be away from home for more than 21 days and still be considered as travelling for work. As an example, academics studying on sabbatical leave have also been held to be travelling in the course of their employment rather than living away from home and thus could receive a travelling allowance over an extended period of time. Where a department feels this may be the case, they should contact the Taxation Accountant for further advice.

Where employees are paid **travel allowances** through payroll, these are also FBT exempt as the PAYG withholding tax provisions will apply.

6.4.4.3 Calculating the taxable value of a LAFHA

The taxable value of a LAFHA is the total allowance amount less the:

a) *exempt accommodation component*, which is the component of the allowance reasonably necessary to compensate an employee and their family for the cost of accommodation away from home ([refer 6.4.4.4](#)); and

b) *exempt food component* ([refer 6.4.4.5](#)) which is the component of the allowance that is reasonable compensation for greater expenditure on food.

Since the taxable value of a LAFHA can only be reduced by an exempt accommodation component and an exempt food component, it follows that any portion of a LAFHA that constitutes compensation for other expenditure or disadvantages will attract FBT.

If an employee is not living away from his or her usual place of residence, any allowance received by the employee will not be considered a living-away-from-home allowance and will therefore, be subject to PAYG Withholding Tax in the employee's hands.

6.4.4.4 Exempt Accommodation Component

The term "exempt accommodation component" refers to compensation to the employee for the additional costs of accommodation that is reasonably expected to be incurred by the employee.

The determination of what represents reasonable compensation for expenditure will vary depending on an employee's particular circumstances. Relevant factors would include job location, family size, duration of temporary employment and the seniority of the employee. An amount in excess of this component would not be exempt and would attract FBT.

6.4.4.5 Exempt Food Component

The term "exempt food component" represents compensation for the additional food costs incurred by the employee and family members whilst living-away-from-home.

A food component of a LAFHA is not totally exempt from FBT, as the legislation recognises that an employee would incur some expenditure on food if the employee had continued to live at their usual place of residence. The FBTAA therefore only treats so much of a food component as exceeds \$42 per week per adult and \$21 per week per child as constituting an exempt food component (thus a \$125 per week food component of a LAFHA paid to a single person would only attract a \$83 exemption i.e. \$125-\$42).

In cases where the food component of the LAFHA is intended to be "incidental" to expenditure which the employee would have incurred at home, a lower taxable value may arise.

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Where an employee is paid an amount above, which the Commissioner considers, represents a reasonable food allowance, the first \$42 and the amount above the Commissioner's issued reasonable food allowance will be subject to FBT. [Taxation Determination - TD 2007/9](#) contains the figures the ATO considers reasonable as a food allowance for the FBT year ending 31 March 2007.

Example 4 – Exempt Food Component

A single employee living away from his family is paid \$200 per week as the food component of a LAFHA. The first \$42 is subject to FBT and the amount in excess of \$180 (the Commissioner's issued reasonable food component for an expatriate) is also subject to FBT. Therefore the amount of the allowance subject to FBT is $\$200 - (\$180 - \$42) = \62 .

Important Note – LAFHA Declaration

In order to take advantage of the exempt accommodation and food components, employees are required to complete a LAFHA declaration form at the time an allowance is paid, refer to [Form 12.4](#) for a copy of the form.

Transaction Processing

Original Expense - Charge to "FB – LAFHA"	⇒	3822
Assessed Tax Charged to Natural Account "FBT – LAFHA"	⇒	3842 (Finance use)
Subject to Employee PAYG Payment Summary Reporting	⇒	Yes

Example 5 – LAFHA FBT Calculation

David Jones, a University employee is paid \$292 per week (\$15,184 for the FBT year) as LAFHA comprising \$150 per week (\$7,800 for the FBT year) for reasonable accommodation costs and \$142 per week (\$7,384 for the FBT year) for all his food.

The calculation for LAFHA fringe benefits would be :

Exempt food component = \$5,200 [$\$7,384 - \$2,184$ (52 weeks @ \$42 per week)]

$\$15,184 - \$7,800$ (exempt accommodation) - \$5,200 (exempt food) = \$2,184

FBT expense = $\$2,184 \times 1.8692$ (Type 2 gross up rate) $\times 46.5\% = \$1,898.28$

6.4.5 Property Benefits

A property fringe benefit arises where an employee or their associate is provided with property by the employer (or an associate of the employer) at a free or discounted rate. The employee must obtain ownership (whether beneficial or legal) of the property. Property is defined very widely and includes any tangible or intangible assets such as goods, real property or legal property. Examples of property benefits include, gifts, computers, furniture and certain corporate wardrobes.

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The taxable value of property fringe benefits depends on whether the property qualifies as "In-house" property or as "external" property.

6.4.5.1 In-house Property

An in-house property benefit is property that is normally dealt in by the employer as part of the employer's business. It should be noted that in-house fringe benefits are subject to limited exemption. The first \$1000 of the taxable value of in-house fringe benefits provided per employee per year is exempt.

Employees who enter into salary sacrifice arrangement for in-house property (books from the Bookshop or membership to the Health Club) get the advantage of in-house fringe benefit exempt of up to \$1000 per FBT year (1st April to 31st March).

6.4.5.2 External Property

This is described as property that is not in-house property. Where the property has been purchased by the University at or about the time it is provided to the employee, the taxable value will be equivalent to the arm's-length purchase price reduced by the amount of any contribution received from the employee.

In all other cases (such as small depreciated assets sold off or given to employees) the taxable value of the property fringe benefit will be equivalent to the market value of the property reduced by the amount of any contribution received from the employee. To determine the market the relevant department should refer to online resources such www.tradingpost.com.au & www.ebay.com.au.

The taxable value will be the GST-inclusive value (where applicable) of the property less any contribution made by the employee (being the GST-inclusive amount, where applicable).

Minor Property Benefit Exemption

If the taxable value of the fringe benefit is less than \$300 including GST, the benefit can be ignored for FBT purposes if benefit being provided to the respective employee is only provided on an *"irregular and infrequent basis"*. This exemption is referred to as the minor property benefit exemption. Other than in restricted circumstances, this exemption does not apply to meal entertainment and other entertainment benefits provided by the University (an example where the exemption would not apply would be a staff Christmas party either on or off the University premises).

6.4.5.3 Computers & Furniture

University computer equipment and furniture are classified as an "external" property benefit. All second hand University computer equipment and furniture must be sold to employees at no less than market value. The exception to the above rule is where the taxable value of the benefit is less than \$300 including GST and the "Minor Property Benefit Exemption" applies.

Any department selling computer equipment or furniture at a discount to the market value of greater than \$300 must notify the Taxation Accountant of the following details of the transaction in order to calculate FBT:

- A description of each item sold.
- The price paid for each item.
- The market value of each item.
- The full name of the employee purchasing the item.

Example 6 – Sale of computer equipment to staff member

David Jones, a University employee purchases a computer from the University library. The computer had a market value of \$800, but the employee paid \$200. The taxable value of the benefit is \$600. FBT will be calculated using the Type 1 gross-up rate because the University would have been entitled to claim an input tax credit when the computer was initially purchased. The FBT is calculated as follows: $\$600 \times 2.0647 \times 0.465 = \576.05 (fringe benefits tax payable relating to this benefit is charged to the cost centre that the employee works for.)

6.4.5.4 Corporate Wardrobes

Provision of a corporate wardrobe to staff will be exempt from FBT if the otherwise deductible rule applies. The otherwise deductible rule states if an employee would have been able to obtain an income tax deduction for a benefit had they purchased the benefit themselves, the value of the benefit will be reduced to the extent that the employee would have been entitled to a deduction

Note: A compulsory uniform is usually deductible for income tax purposes as it has the essential character of an outgoing incurred in gaining or producing assessable income and therefore is considered otherwise deductible for the purposes of FBT.

A non-compulsory uniform is not deductible unless the design is registered with AusIndustry. A deduction will only be available for non-compulsory uniforms purchased after it has been registered. Protective clothing required for an employee's employment is exempt from FBT as it is a work-related item.

Transaction Processing

Property fringe benefits should be charged to the natural account 3817. FBT assessed and calculated will be charged to 3837.

Original Expense -Charge to "FB – Property"	⇒	3817
Assessed Tax Charged to Natural Account "FBT – Property"	⇒	3837 (Finance use)
Subject to Employee PAYG Payment Summary Reporting	⇒	Yes

6.4.6 Tax Exempt Body Entertainment Fringe Benefits

Entertainment provided to employees (or associates of employees) by the University is generally subject to FBT. It is therefore important to recognize *what is* and *what is not* regarded as entertainment for the purpose of FBT. Entertainment is generally defined as entertainment **by way of food, drink or recreation** and includes accommodation or travel costs to facilitate such entertainment.

Entertainment benefits must be divided into two categories of expenditure as each benefit is calculated differently. The 2 categories are:

1. Meal Entertainment (refer 6.4.6.1);
2. Non-meal Entertainment (also known as "Recreation" refer 6.4.6.3).

As the University uses the 50% concession in calculating meal entertainment benefits, meal entertainment provided to all persons (staff and non-staff) is subject the FBT. This includes employees and their associates as well as students and clients and any other persons. Refer to 6.4.6.2 for further information on how meal entertainment is calculated.

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6.4.6.1 Meal Entertainment

This arises when the provision of food or drink has the character of entertainment. Food or drink has a character of entertainment when it is:

- provided in a social situation (i.e., when employees are enjoying themselves at events like a lunch, dinner, evening drinks or staff function). In comparison, food or drink provided for refreshment or sustenance (e.g. during training sessions or overtime) does not generally have the character of meal entertainment.
- a more elaborate meal or drink. If an employer provides morning and afternoon tea and light lunches (e.g. sandwiches, cakes) to staff for work purposes, this is unlikely to have the characteristics of meal entertainment. Whereas the provision of a three-course meal as a working lunch has the character of meal entertainment, as has the provision of alcohol.

Note: Below are some examples of what is meal entertainment. For a longer list of practical examples please refer to [Appendix 13.1](#).

- business lunches;
- social functions, including Christmas functions

These are some examples of what is not meal entertainment

- meals on business travel overnight;
- morning/afternoon teas on business premises

In order to determine whether the provision of food or drink to a recipient results in meal entertainment, the Commissioner of Taxation ('the Commissioner') has determined that the University should consider:

- **WHY** the food or drink is being provided? Food or drink provided for the purposes of refreshment does not generally have the character of entertainment. Food or drink provided in a social situation where the purpose of the function is for employees to enjoy themselves has the character of entertainment; and
- **WHAT** food or drink is being provided? Finger food, morning and afternoon teas are generally not entertainment. However, the more elaborate the meal, the greater the likelihood that entertainment arises. This would apply for instance where a three course meal is provided during a working lunch; and
- **WHEN** is the food or drink being provided? Generally, food or drink provided during work time, during overtime or while the employee is travelling is less likely to be entertainment. This is because the provision of food or drink under these circumstances is due to a work-related purpose. However, entertainment can still arise in such circumstances where there is for instance a social function during work time; and
- **WHERE** is the food or drink being provided? Food or drink provided on the employer's premises is less likely to be meal entertainment. Food or drink provided off the employer's premises is more likely to be considered entertainment by way of food or drink.

The Commissioner places the greater importance on the first two factors being "WHY" and "WHAT". The table summaries common occurrences where FBT applies.

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Circumstances where food and drink entertainment is provided – Income tax exempt body	Subject to FBT?
--	------------------------

Consumed by employees on the University's business premises.	
1) At a social function	Yes
2) Morning and afternoon teas and light lunches ²	No
3) Light refreshments ² on business premises during staff meetings, training sessions, overtime, working lunches and meetings of council members.	No

Consumed by employees' associates (e.g. spouse) on the University's business premises.	
1) At a social function	Yes
2) Morning and afternoon teas and light lunches ²	Yes

Consumed by clients on the University's business premises.	
1) At a social function	Yes
2) Morning and afternoon teas and finger food (sandwiches, etc)	No
3) Council meeting dinners – light meal (one course or finger food) provided as sustenance, no alcohol	No
4) Council meeting dinners – elaborate meal provided (two course or more)	Yes

Food and drink consumed off the University's premises.	
1) At a social function or business lunch (e.g. Includes all costs in relation to Christmas party, awards nights, cocktail party at a restaurant, function centre or similar venue.)	
- employees/associates	Yes
- clients	Yes
2) At an overnight planning retreat/conference/seminar	
- meals at a conference/retreat	No
- meals with entertainment (band or DJ)	Yes
- Travel to/from conference/retreat	No
- Accommodation during conference/retreat	No
- Accommodation after conference/retreat	Yes
- Game of golf, tennis at conference/retreat	Yes

Alcohol.	
1) Employee travelling – wine, etc accompanying evening meal	No
2) Alcohol provided at the conclusion of a CPD Seminar with finger food	No

Use of corporate credit card.	
1) Employees dine together at a restaurant and the meal is paid for with the credit card	Yes

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Employees dining with other employees of the same employer, or with employees of associates of the employer.	
1) Employee entertains another employee	Yes
2) Employee (A) entertains an employee (B) of an associated entity Of the employer	
- employee A	Yes
- employee B	Yes

Consumed by employees while travelling overnight on business.	
1) Employee travels and dines alone	No
2) Two or more travelling employees dine together	No
3) Travelling with client and dine together	No
4) Dines with client who is travelling separately	No
5) Dines with employee not travelling	
- travelling employee	No
- non-travelling employee	Yes
6) Dines with client who is not travelling	
- travelling employee	No
- non-travelling client	Yes

Meal consumed by employees while attending a seminar.	
1) Incidental to an eligible seminar ¹ not held on the University's premises	No
2) Light breakfast at a Continuing Professional Development (CPD) seminar that is not an eligible seminar ¹	No
3) Light refreshments including moderate amount of alcohol provided immediately after a CPD seminar that is not an eligible seminar ¹	No

Meals provided under an arrangement.	
1) Victoria University is not aware and does not consent to its employee being entertained by clients	
- employee	No

Hotel discount cards	
1) Employee who holds a restaurant discount card entertains a client	
- employee	Yes
- client	Yes

Accompanying spouses.	
1) With employee travelling on business and employer pays for meals	
- employee	No
- spouse	Yes

¹Longer than four hours.

²Light refreshments comprise of the following:

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- Morning and afternoon teas – which includes tea, coffee, fruit drinks, cakes, biscuits, etc... but does **not** include alcohol; or
- Light lunches and meals – such as finger food, sandwiches, salads and fresh fruit.

6.4.6.2 Calculating FBT on Meal Entertainment – The 50/50 Method

The University uses the 50/50 split method to calculate FBT on meal entertainment. That is FBT is payable on 50% of the employer's total meal entertainment expenditure irrespective of whether entertainment is provided to employees (including their associates) or non-employees (e.g. clients, suppliers and contractors).

All meal entertainment expenditure (100%) should be charged to the natural account code 3805. This includes staff and non-staff (e.g. students) meal entertainment expenses. For GST purposes the transaction needs to split and entered under two line items within the purchasing module of the Finance One system:

- 50% of the invoice will be entered with a GST rate code of **C**; and
- The other 50% entered with a GST rate code of **P**.

Note: If the invoice is more than \$50 and no tax invoice is obtained then the amount should be posted to 100% to natural account 3805 with a GST rate code of **P**.

- 50% of the invoice will be coded with a GST rate code of **NA**; and
- The other 50% coded with a GST rate code of **P**.

At the end of each FBT year, Finance will calculate FBT on 50% of the balance in these accounts and charge the tax paid to the corresponding cost centre. The other 50% is regarded as FBT exempt.

6.4.6.3 Documenting treatment of food and drink transactions

Any employee incurring expenditure on food and drink that is not classified as meal entertainment must document why FBT is not applicable where it is not clear from looking at the invoice why FBT should not apply. The reasons why FBT should not apply should be written on the invoice or a "Reason for no FBT" form should be completed and attached to the relevant invoice when submitting to accounts payable for payment. Refer to [Form 12.5](#).

Transaction Processing

Original Expense - Charged to "FB - Meal Entertainment"	⇒	3805	
Assessed Tax Charged to Natural Account "FBT - Meal Entertainment"	⇒	3825	(Finance use)
Subject to Employee PAYG Payment Summary Reporting	⇒	No	

6.4.6.4 Non-meal entertainment - Recreation

Recreation includes amusement and sport or leisure time pursuits. Common examples of such recreation include, engaging an entertainer for a social function (e.g. musician), a game of golf or tennis, tickets to a movie, tickets to a theatre or sporting event and sightseeing tours. This includes recreation provided to employees at an overnight conference e.g. sightseeing, golf etc.

The taxable value of non-meal entertainment fringe benefits is so much of the expenditure incurred by the employer in providing the entertainment to the employee (or associate).

Recreation expenditure (non-meal entertainment) that relates to employees or their associates should be charged to the natural account code 3806. The portion of recreation expenditure relating to non-staff (e.g. students) is not subject to FBT and should be charged to a relevant natural account excluding the FBT accounts. For GST purposes, the input tax credit can only

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be claimed on recreation expenditure that relates to employees. Refer to the GST policy at paragraph 6.9.11 for further information on the interaction of FBT & GST.

Transaction Processing

Original Expense - Charged to "FB – Other Entertainment"	⇒	3806
Assessed Tax Charged to Natural Account "FBT – Other Entertainment"	⇒	3826(Finance use)
Subject to Employee PAYG Payment Summary Reporting	⇒	Yes

6.4.7 Car park Benefits

The provision of car parking benefits to University employees is specifically exempt from FBT as per section 58G (2), (3) of the FBTA.

6.4.8 Residual Benefits

This category of fringe benefits is effectively the "catch-all" category that seeks to tax fringe benefits provided to employees, which do not come within any other category detailed previously. E.g. discounted school fees, private use of motor vehicles other than a car (e.g. truck), provision of a rental car hired by the University.

Transaction Processing

Original Expense - Charged to "FB – Residual"	⇒	3820
Assessed Tax Charged to Natural Account "FBT – Residual"	⇒	3840 (Finance use)
Subject to Employee PAYG Payment Summary Reporting	⇒	Yes

6.4.9 Debt Waiver & Loan Benefits

Debt waiver and Loan fringe benefits are not provided by the University. If any of these types of benefits are to be provided, advice should be sought from the Taxation Accountant – Finance before proceeding.

6.4.9.1 Debt Waiver Fringe Benefit

A debt waiver fringe benefit arises where the University waives or forgives an employee's debt. For example, if the University sells goods to an employee and later tells them not to bother about paying the invoiced amount, the University is considered to have provided a debt waiver fringe benefit.

The taxable value of a debt waiver fringe benefit is the amount of the debt that is released. For example, if the University 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. GST does not affect the taxable value of the debt waive fringe benefit, so these benefits are always grossed up at the type 2 rate.

6.4.9.2 Loan Benefit

A loan constitutes a benefit that will become taxable whenever the rate of interest charged on the loan is lower than the benchmark interest rate set by the ATO. The benchmark interest rate for 2007 FBT year is 7.30% per annum.

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The concept of a loan is given an extended meaning in the FBTA and includes:

- amounts not paid when due (if the debt due is subsequently waived, it will become a debt waiver benefit); and
- interest, if the interest due on a loan becomes payable less frequently than every six months; and
- expense account advances that are not repaid or otherwise settled at least every six months.

6.5 EXEMPT FRINGE BENEFITS

A number of benefits are exempt from FBT. Although these are popularly called 'exempt fringe benefits', they are referred to in the FBT legislation as exempt benefits. The following is a non-exhaustive list of benefits that are exempt from FBT (subject to certain conditions):

- Newspapers and periodicals;
- Travel costs in attending job interviews;
- In-house health care facilities;
- Occupational health and counseling – work related medical tests (including pre-employment tests), preventive health care (including certain vaccinations) and optical aids for screen-based equipment but not massages, work-related counseling (including services to former employees who were made redundant) and migrant language training;
- Emergency assistance;
- Compassionate travel;
- Long service awards – awards for long service of at least 15 years, provided the benefit is no more than \$1,000 and \$100 for each additional year;
- Safety awards – up to the value of \$200 (GST inclusive) per employee solely in recognition of the special achievements of the employee in occupational health and safety;
- Provision of certain work-related items (mobile phone or a car phone, a briefcase, a calculator, a tool of trade, an item of computer software for use in the employee's employment, an electronic diary or similar item and a notebook computer, a laptop computer or a similar portable computer). Please note a benefit arising in relation to a mobile phone or a car phone will attract the exemption only if the phone is primarily for use in the employee's employment. The exemption in relation to portable computers is limited to the purchase or reimbursement of one computer per employee per year;
- Membership fees and subscription (trade subscription and professional journal, an entitlement to use a corporate credit card and an entitlement to use an airport lounge membership);
- Taxi-travel – taxi travel provided to employees is an exempt benefit where the taxi begins or ends at an employee's place of work so long as it constitutes a single trip – taxi travel provided to sick employees is also exempt irrespective of whether the employee is sent to a doctor, relative or their home;
- Minor benefits – these are benefits of small value that are infrequently or irregularly provided and/are difficult to record or value. Examples include Christmas gifts of modest value and taxi fares for employees unexpectedly required to work late. In addition, the benefit must be regarded as being 'minor', and is treated as such of its value is less than \$300 including GST.

6.6 EFFECTIVE SALARY PACKAGING

6.6.1 What is a salary sacrifice arrangement?

A salary sacrifice arrangement is an arrangement between the University and an employee, whereby the employee agrees to forgo part of their future entitlement to salary or wages in return for the University providing them with benefits of a similar cost. For more information on salary sacrifice arrangements please contact Tina Mahon, Team Leader – Executive Remuneration and Employee Benefits on extension 5287.

6.6.2 What types of benefits can be included in a salary sacrifice arrangement?

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The types of benefits that can be provided as salary sacrifice arrangements include employer superannuation, fringe benefits and exempt benefits. It is important to note that superannuation contributions made by the University under a salary sacrifice arrangement to a complying superannuation fund for the benefit of an employee are not fringe benefits. However, superannuation contributions made under a salary sacrifice arrangement for an associate of an employee are subject to FBT.

For further information please refer to the Salary Packaging Policy.

6.7 EMPLOYEE CONTRIBUTIONS

An employee can make recipients contributions to reduce the taxable value of most fringe benefits. The value of the contribution must be paid out of post-tax income and the contribution for FBT purposes will be the GST-inclusive value.

Where the recipient's contribution is made in cash, the contribution will be deemed consideration for the provision of the benefit and a taxable supply for GST purposes. The University will be required to remit $\frac{1}{11}$ th of this contribution as GST to the Australian Taxation Office ('ATO').

Where the contribution is in the form of the employee incurring non-reimbursed expenses in respect of a benefit. E.g. Non-reimbursed fuel for a car, the contribution is considered to be a supply of those items and services by the third party and therefore the University is not required to remit $\frac{1}{11}$ th of this contribution as GST.

Notwithstanding that $\frac{1}{11}$ th of the contribution is remitted to the ATO, the whole amount is treated contribution to the provision of the benefit.

6.8 TRAVEL DIARY

Where the University reimburses or pays for an employee's business related travel, a travel diary should be maintained by each relevant employee where:

- overseas travel for 6 or more consecutive nights; and where
- domestic travel for 6 or more consecutive nights and the travel are not exclusive for the purpose of performing the employment duties.

The travel diary should outline:

- the date, day and approximate time the business activity commenced;
- how long the business activity lasted;
- where the business activity took place; and
- the nature of the business activity.

Entries should be made during the business activity or as soon as practically possible afterwards. A sample of the travel diary is on page 2 of the following link, [Authority to Travel](#). Organisational units are responsible for ensuring their employees maintain travel diaries. These are to be filed in a safe and secure place for a period of 5 years. The Finance Department Risk and Compliance Unit will conduct regular checks to ensure compliance with this requirement.

Travel diaries must be maintained even where the University has other means to verify the nature and purpose of university travel.

7.0 CONGRUENCE WITH LEGISLATION AND RELATED POLICIES

Fringe Benefits Tax Assessment Act (FBTAA) 1986

CCH Australian Fringe Benefits Tax Guide

ATO [Miscellaneous Tax Rulings](#)

Victoria University Policies:

- Rules for the Use of Credit cards
- Purchasing Policy

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- Goods & Services Tax (GST)
- Travel Policy
- Salary Packaging Policy

8.0 ACKNOWLEDGEMENTS

2005 CCH Australian Master GST Guide
 2005 CCH Australian Master Tax Guide
 Fringe Benefits Tax: A Guide for Employers
 Australian Taxation Office (ATO) Website
 Department of Treasury & Finance – GST Tax Library
 National Tax Accountants Association (NTAA) 2005 FBT Guide

9.0 CONSULTATION

The policy has been circulated through VCAC for comments and feedback and policy amendments were made accordingly. The policy has been independently reviewed by accounting firm Moore Stephens Melbourne Pty Ltd.

10.0 REVIEW

This policy is to be reviewed whenever there is a material change in the FBT legislation that will need to be reflected in this policy. Any other policy changes will occur **no later than 31 December 2012**.

11.0 ACCOUNTABILITIES

11.1 RESPONSIBILITY

The organisational unit responsible for the implementation of this policy is Finance.

The positions listed below are responsible for ensuring the implementation of, and on going compliance, with this policy:

OFFICER	RESPONSIBILITY
Director – Finance	Formal publication of policy on University Central Policy Register after signing and promulgation by the Vice-Chancellor on behalf of Council
Manager – Risk and Compliance; & General Manager – Financial Operations	Monitoring compliance and initiating corrective action if required
Taxation Accountant	Staff training (if required), and policy maintenance
Principal Officers; Deputy-Vice-Chancellors, Pro-Vice-Chancellors & Executive Directors.	To ensure that this policy is implemented within their portfolios
Deans, Deputy Deans, Associate Deans, Directors, Deputy Directors, Associate Directors, Heads of Schools, Departments and similar.	Ensure staff are made aware of the policy, that it is implemented and applied in their organisational unit. Awareness may occur, for example, through discussion at staff meetings.
Staff	To be aware of, understand and apply the policy as required to their area of work.

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11.2 IMPLEMENTATION PLAN

TASK IDENTIFICATION				
Task No.	Task Name	Responsible Person	Completion Date	Delivered Yes/No
1.	Approval of policy by Vice Chancellor	General Manager – Financial Operations	9 Dec 2005	
2.	Global email advising of the new FBT policy and its approval.	General Manager – Financial Operations	12 Dec 2005	
3.	Write to the Principal Officers, Deans, Directors and Associate Directors requesting they make their staff aware of the new FBT policy.	General Manager – Financial Operations	12 Dec 2005	
4.	Provide advice, consultation and conduct training sessions on the new policy for all staff.	Taxation Accountant	On going	

11.3 COMPLIANCE

The Manager – Risk and Compliance will conduct periodic reviews of FBT transactions to ensure compliance with this policy. The results of the review will be forwarded to the General Manager – Financial Operations for appropriate follow up action.

If matters remain unresolved the non-compliance issues would be forwarded to the Director – Finance.

If, in the opinion of the Director - Finance, there is a deliberate non-compliance with this policy, the Director - Finance will recommend to the Deputy Vice-Chancellor (Capital and Management Services) that sanctions be invoked against the non-complying officer. Sanctions include, but are not limited to, the withdrawal of the officer's financial delegation and/or withdrawal of access to the University's finance system.

11.4 EFFECTIVENESS OF THIS POLICY

PERFORMANCE INDICATOR	ASSESSMENT RESPONSIBILITY OF
Number of transactions identified as incorrectly processed or incorrectly treated for FBT purposes.	Manager – Risk and Compliance
Number / value of ATO adjustments resulting from ATO compliance reviews and ATO audits.	Taxation Accountant
Compliance with FBT specific rules established by the Department Treasury and Finance annual Tax Compliance Framework.	General Manager – Financial Operations

12 FORMS

- 12.1 [Motor Vehicle Declaration Form](#)
- 12.2 [Fuel Expenses Declaration Form](#)
- 12.3 [Expenses Payment Benefit Declaration](#)
- 12.4 [LAFHA Declaration Form](#)
- 12.5 [Reason for no FBT form](#)

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12.1 MOTOR VEHICLE DECLARATION FORM

FBT year ending 31st March 200_____

Employee Name (Please Print) _____

Car Make	Model	Registration Number	Kilometre Reading as of 31/03/20_____

Note: can be used for more than one vehicle

Employee Signature _____

Date _____

This form must be completed as at 31st March each year.

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12.2 FUEL EXPENSES DECLARATION FORM

I, _____ declare that
(Employee's full name)

_____ expenses of \$_____
(state whether fuel and/or oil) (amount in figures)

were incurred by me during the period from ____/____/20__ to ____/____/20__
Date/Month/Year Date/Month/Year

in respect of _____ registration number _____
(make and model of car)

Signed _____

Date ____/____/20__

If the employee is responsible for all fuel and/or oil costs, a declaration based on a reasonable estimate derived from the total kilometres travelled, average fuel costs and fuel consumption will be acceptable. In these cases the declaration should be extended as follows:

I also declare that the total kilometres travelled during the period were _____.

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12.3 EXPENSE PAYMENT BENEFIT DECLARATION

(Otherwise Deductible Declaration)

I _____ declare that
(Employee's full name)

(show nature of expense, e.g. telephone rental and/or calls)

were provided to me by Victoria University during the period from ____/____/20__ to
Date/Month/Year

____/____/20__ and the expenses were incurred by me for the following purposes(s):
Date/Month/Year

(Please give sufficient information to demonstrate the extent to which the expenses were incurred by you for the purpose of earning your assessable income)

I also declare that the percentage of those expenses incurred in earning my assessable income was ____%.

Signed _____

Date ____/____/20__

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12.4 LAFHA DECLARATION FORM

LIVING-AWAY-FROM-HOME ALLOWANCE DECLARATION

I, _____ declare
(employee name)

that: during the period ____/____/20__ to ____/____/20__.

I was required to live away from my usual place of residence in order to perform the duties of my employment and that during that period my usual place of residence was

(state place where you usually live)

and the nature of that residence was _____

and during the period the place at which I actually resided was _____

(state all addresses at which you resided while away from home in the period stated above)

Signature _____

Date ____/____/20__

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12.5 REASON FOR NO FBT FORM

No FBT is payable on the food and drink on the attached invoices because:

Reason for no FBT	Tick Appropriate
Tea/coffee provided for on-going consumption on business premises (i.e., for employees and visitors)	
Tea/coffee consumed at a café during a work meeting	
Tea/coffee consumed with a pastry or muffin at a café during a work/business meeting	
Light breakfast (e.g., tea, coffee, orange juice, muffins and pastries) provided at a morning seminar	
Light refreshments provided at a seminar (e.g., sandwiches, finger food, orange juice, tea, coffee and muffins)	
Finger food/sustenance (sandwiches, fresh fruit and orange juice) consumed during a work meeting, training session or overtime on University premises.	
Food and drink consumed at an overnight business or work-related conference but not associated with entertainment (e.g. no live band etc)	
Food and drink costs were fully covered by the participants attendance/entrance fee to the function (<i>i.e. the University did not fund the cost of food and drink</i>)	

Employee Name: _____ Ext no. _____

Employee Signature: _____

Date ____ / ____ /20 ____

13.0 APPENDICES

13.1 CHECKLIST OF EXAMPLES OF MEAL ENTERTAINMENT

Type of food and drink/situation	Meal Entertainment Account Code 3805	Not Meal Entertainment Account Code 3225
Tea/coffee provided for on-going consumption on business premises (i.e., for employees and visitors)		✓
Pastries, muffins and other cakes consumed during a work meeting or training session on business premises		✓
Tea/coffee consumed with a pastry or muffin at a café during a work/business meeting		✓
Birthday cake consumed on business premises (e.g., in a boardroom or common area) to celebrate an employee's birthday: <ul style="list-style-type: none"> • Stop work and sing Happy Birthday • Continue work and have cake at desk 	✓	✓
Sandwiches, fresh fruit and orange juice consumed during a work meeting or training session on business premises		✓
Finger food and drink consumed on business premises while working overtime: <ul style="list-style-type: none"> • sandwiches, fresh fruit and orange juice • pizza and soft drink • Chinese take away and soft drink • Japanese take away (e.g., sushi) and soft drink 		✓ ✓ ✓ ✓
Food and drinks consumed at a café or restaurant while working overtime	✓	
Food and drink consumed by an employee whilst travelling overnight on business: <ul style="list-style-type: none"> • employee dines alone and consumes a meal (e.g., steak and vegetables) without alcohol • employee dines alone and consumes a meal (e.g., steak and vegetables) with a glass of wine • employee dines with friends <ul style="list-style-type: none"> ○ travelling employee's meal ○ friends' meal • employee dines with travelling employee(s) • employee dines with non-travelling employee <ul style="list-style-type: none"> ○ travelling employee's meal ○ non-travelling employee's meal • employee dines with travelling client 	✓	✓ ✓ ✓ ✓ ✓ ✓

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Type of food and drink/situation	Meal Entertainment Account Code 3805	Not Meal Entertainment Account Code 3225
<ul style="list-style-type: none"> • employee dines with non-travelling client <ul style="list-style-type: none"> ○ travelling employee's meal ○ client's meal • employee dines with spouse <ul style="list-style-type: none"> ○ travelling employee's meal ○ spouse's meal • food and drink consumed from mini-bar 	 ✓ ✓	 ✓ ✓ ✓
Food and drink consumed at an overnight business or work-related conference but not associated with entertainment (e.g. no live band etc)		✓
Light breakfast (e.g., tea, coffee, orange juice, muffins and pastries) provided at a morning seminar		✓
Light refreshments provided at a seminar (e.g., sandwiches, finger food, orange juice, tea, coffee and muffins)		✓
A business lunch at a café or restaurant	✓	
Friday night drinks at the office (including the consumption of "nibbles" - i.e., chips, nuts, and other finger food)	✓	
Food and drink consumed at a social function held on the business premises (e.g., a Christmas party, year-end party and cocktail party)	✓	
Food and drink consumed at a social function held off the business premises (e.g., a Christmas party, year-end party and cocktail party)	✓	
Food and drink consumed at an awards night or similar function (whether or not held on business premises)	✓	
Food and drink consumed in a corporate box or marquee, as part of a sporting/similar event	✓	
Food and drink consumed as part of a corporate sporting day	✓	
<p>Weekend planning retreat held by employer at a hotel complex with conference facilities:</p> <ul style="list-style-type: none"> • sandwiches or finger food and soft drink or fruit juice provided during lunch • basic dinner held on hotel premises with no alcohol and no associated entertainment • basic dinner held on hotel premises with no alcohol, but with associated entertainment (e.g., a live band or floor show) • dinner held off hotel premises (e.g., at a local restaurant) where employees can choose anything from the menu (including lavish meals - e.g., seafood) with alcohol being consumed 	 ✓ ✓	 ✓ ✓

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Type of food and drink/situation	Meal Entertainment Account Code 3805	Not Meal Entertainment Account Code 3225
Gifts to employees, clients, suppliers, etc. – unopened bottle of wine or similar drink, Christmas hamper or similar food baskets, etc. * NOTE: Use natural account code: <ul style="list-style-type: none"> • 3565 if item is less than \$300; or • 3817 if item is greater than \$300 <u>and</u> for an employee. If not for an employee use 3565. 		✓*

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