

Expense payment fringe benefits

What is an expense payment fringe benefit?

An expense fringe benefit may arise where the University either:

1. pays or reimburses an employee for expenses they incur; or
2. pays a third party in satisfaction of expenses incurred by an employee.

In either case, the expenses may be business expenses or private expenses, or a combination of the two. The University Policy is not to reimburse or pay for private expenses on behalf of employees.

Examples of expense payment fringe benefit

The following examples are Expense Payment fringe benefits:

The payment (or reimbursement) by the University of staff member's:

- home telephone/internet broadband charges;
- non-business travel expenses;
- health insurance premiums, rent, rates or electricity;
- airfares for family members;
- personal car expenses (excluding VU owned cars);
- self-education expenses.

How is FBT calculated?

FBT =

- i. Taxable value of expense payment fringe benefit X 1.8868 (Gross up factor) X 47% (FBT Rate)
(i.e. for a benefit with no GST)
- ii. Taxable value of expense payment fringe benefit X 2.0802 (Gross up factor) X 47% (FBT Rate)
(i.e. for a benefit which includes GST)

Where:

The taxable value of an expense payment fringe benefit is generally the amount of the expenditure (including GST) incurred by the employee that is paid or reimbursed by the University less any contributions made by the employee to the University.

Can the taxable value be reduced?

The taxable value of an expense payment fringe benefit can be reduced by an employee payment to the University in respect of the benefit, or to the extent the **Otherwise Deductible Rule** applies.

Otherwise Deductible Rule – As a general rule, this means that the taxable value of a benefit will be reduced by the amount the employee would have been entitled to claim an income tax deduction that would have been otherwise allowed to the employee, had the University not paid or reimbursed the expense. Please note the otherwise deductible rule does not apply where the fringe benefit is provided to an associate of an employee.

Example 1

John, an employee of the University, seeks reimbursement for the cost of an accommodation for an overnight stay in Sydney where he attended a business meeting at VU's Sydney Office. The taxable value of the benefit

will be reduced to nil since John would have been entitled to claim the full accommodation cost incurred as an income tax deduction in his personal income tax return had he not been reimbursed by the University.

Example 2

Adam, an employee of the University has an internet account of \$200. He estimates that 50% (i.e. \$100) of the accounts relates to business use and the University reimburses him for the full amount of \$200.

Had the University not paid the employee, the employee would have been allowed to claim \$100 (i.e. the business use portion) in his individual income tax return. Since the University reimbursed Adam \$200 of which \$100 is subject to otherwise deductible rule as stated above, hence only \$100 is subject to FBT i.e. the amount that relates to private use which is not subject to the otherwise deductible rule.

Specific Expense Payment Fringe Benefits

Self-education Expenses and HELP

Self-education expenses are expenses incurred to undertake a course of study at a school, college, university or other place of education.

Self-education expenses that are reimbursed by the University are not subject to FBT if all of the requirements of the **otherwise deductible rule** can be applied and the course of study has a sufficient connection to the employee's existing income generating employment.

To satisfy the requirements of the otherwise deductible rule, self-education expenses can satisfy any of these conditions:

- the course is undertaken to upgrade an employee's qualification for current employment
- the course is undertaken to improve specific skills or knowledge used in the employee's current employment;
- the employee is a trainee and the course undertaken is a course that forms part of the traineeship;
- the course undertaken at the time when the employee is working and studying leads or is likely to lead to an increase in employment income and
- other circumstance exists to establish a direct connection between the course undertaken and the employee's current employment.

Courses that only relate to current employment or profession in a general way or create an opportunity to get a new employment do not satisfy the requirements of otherwise deductible rule and if the University reimburses or pays for these courses the full amount is subject to FBT.

HELP (HECS-HELP, FEE-HELP and OS-HELP) **loan repayments** paid to the ATO or reimbursed by the University to the employees are fully subject to FBT, regardless of whether the course is work-related. The **otherwise deductible rule** can only apply for a reimbursement of the initial subject fee and not to a reimbursement of a repayment of a HELP debt.

Example 3

Louis is a computer science student. His studies are focused on system analysis, software design and programming. Louis also works at the University Laboratory installing computers. His course and job are only generally related. The work only requires a low level of computer knowledge which Louis already had before starting his employment.

The high-level professional skills Louis acquires from the course are well beyond the skills required for his current employment. Consequently, the expenses incurred by Louis to undertake this course do not satisfy the requirements of the otherwise deductible rule because it:-

- does not maintain or improve his specific knowledge or skills in his current job
- relates in only a general way to this current employment, and
- will enable him to get new employment.

If the University reimburses or pays Louis's course fees, the full amount is subject to FBT.

Example 4 – Self education course fees no FBT

Daniel is a Lawyer at the University. As part of his employment contract, the University agrees to reimburse the tuition fees of his postgraduate course fees 'Master of International Law'. Is the reimbursement of the tuition fees subject to FBT?

No, it is not subject to FBT. The course fees would have been tax deductible to Daniel had he paid them himself as they are directly related to his current work activities. Daniel has to complete the 'Staff Reimbursement Form' and the reimbursement should be posted to natural account code "3858 – Staff Development fees".

Example 5 – Self education course FBT

Daniel is a Lawyer at the University. To improve his musical ability, which is Daniel's main interest outside of work, Daniel enrolls in the Bachelor of Music Degree. Daniel seeks reimbursement of the tuition fee from his supervisor. Should the organisation unit where Daniel works approve the reimbursement; will it be subject to FBT?

Yes, the reimbursement will be subject to FBT. The music course undertaken by Daniel does not satisfy the requirements of the otherwise deductible rule and Daniel could not claim the tuition fees as an income tax deduction in his personal income tax return.

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 (RFBA)	⇒ Yes