

Revenue Ruling

Payroll Tax Act 2009

PTA003[V2]

FRINGE BENEFITS

Preamble

The definition of wages in Part 3 of the *Payroll Tax Act 2009* (the "Act"), includes fringe benefits as defined in the *Fringe Benefits Tax Assessment Act 1986* (Cwlth) (the "FBT Act"), but does not include tax-exempt body entertainment fringe benefits.

This Revenue Ruling addresses the following points:

- ▶ calculating the value of fringe benefits for payroll tax purposes;
- ▶ clarifying the treatment of fringe benefits with a nil taxable value and exempt benefits where such benefits also fall within another part of the definition of wages;
- ▶ explaining the requirements of the alternative method of declaring fringe benefits;
- ▶ explaining the method of calculating the South Australian component of fringe benefits when they are not readily identifiable; and
- ▶ the adoption of Australian Taxation Office (ATO) fringe benefits tax rulings.

Ruling

Value of Fringe Benefits for pay-roll tax purposes

Under the FBT Act, fringe benefits are categorised into two types depending on the GST implications. The Type 1 fringe benefits for which the employer can claim a GST input tax credit are grossed up by a higher Type 1 factor and Type 2 fringe benefits for which the employer cannot claim a GST input tax credit are grossed up by a lower Type 2 factor.

Section 15 of the Act requires employers to gross up all fringe benefits by using only the lower Type 2 factor. The type 2 factor may be calculated as follows:

$$\frac{1}{1 - \text{FBT rate}}$$

Fringe Benefits with a nil taxable value

Where a benefit has a nil taxable value under the FBT Act, some uncertainty may exist as to whether or not such benefits will be subject to payroll tax where the benefit also falls within another part of the definition of wages under the Act. Fringe benefits which have a nil taxable value under the FBT Act will also have a nil taxable value for payroll tax purposes.

Exempt benefits

The FBT Act provides specific exemptions for certain types of benefits. Such exempt benefits are not fringe benefits for the purposes of the FBT Act. Some uncertainty may exist as to whether or not such benefits will be subject to payroll tax where the benefit also falls within another part of the definition of wages under the Act.

Such exempt benefits are not fringe benefits for payroll tax purposes even where the exempt benefit would also fit within another part of the definition of wages under the Act.

Election for alternative method to declare fringe benefits

Employers are required to declare in their monthly returns the actual value of total fringe benefits (grossed up by the Type 2 factor) provided in each month. For administrative ease, **Section 16** of the Act allows employers to make a written request for another method for declaring the fringe benefits, whereby the amounts declared are based on the FBT returns.

Where such a request is made, employers must include in each monthly payroll tax return from July to May, one-twelfth of the total taxable value of fringe benefits in the FBT return for the year ending 31 March immediately preceding the start of each financial year, grossed up by the Type 2 factor. The Annual Reconciliation for each financial year should include the total taxable value of fringe benefits declared in the FBT return ending 31 March immediately before the Annual Reconciliation, grossed up by the Type 2 factor.

Example 1

XYZ Pty Ltd made a request to adopt an alternative method of declaring fringe benefits for payroll tax purposes. In the FBT year ended 31 March 2015, the total taxable value of the fringe benefits grossed up by the Type 2 factor is \$100 000. Accordingly, XYZ Pty Ltd would declare \$8 333 of fringe benefits in each payroll tax return for July 2015 to May 2016 (i.e. $1/12 \times \$100\,000 = \$8\,333$).

In its FBT return for the year ended 31 March 2016, the total taxable value of the fringe benefits grossed-up by the Type 2 factor is \$105 000, which is the amount that would be declared as the fringe benefits amount in the 2015-16 Annual Reconciliation.

Under the Act an employer may only take advantage of the formal election where:

- ▶ The employer was liable to pay FBT for a period of not less than 15 months prior to the commencement of the relevant tax year; and
- ▶ The Commissioner of State Taxation (the "Commissioner") is notified of the election in the approved form.

An employer who does not meet these requirements must return the actual value of the fringe benefits paid during the relevant period or make a written request for another method for declaring the fringe benefits.

Once an election is made, an employer must use the alternative method for declaring fringe benefits in their payroll tax returns, unless the Commissioner gives approval to revert back to using the actual value of fringe benefits. Furthermore, the alternative method must be used for declaring the value of all fringe benefits i.e. an employer is not permitted to use the alternative method for declaring the value of some fringe benefits and the actual value of other fringe benefits.

Employers seeking such approval must lodge an application in writing which explains why termination of the election is sought. (e.g. the employer has provided fewer benefits during the current financial year compared with the previous FBT year).

Where an employer ceases to be liable for payroll tax, regardless of whether or not an alternative method of declaring fringe benefits has been requested, the amount of fringe benefits declared in the employer's final payroll tax return is to be as follows.

- ▶ the actual value of the South Australian component of fringe benefits paid or payable by the employer for the period from the preceding 1 July to the cease date, grossed up by the Type 2 factor; less
- ▶ the value of the South Australian component of fringe benefits declared in payroll tax returns during that period.

Determination of South Australian component of fringe benefits

In relation to employers who employ in more than one state, it is recognised that existing FBT record-keeping systems may not allow an employer to identify the South Australian component of the fringe benefits.

In such circumstances, the South Australian component of the fringe benefit amount may be declared on an apportionment basis, calculated in accordance with the approved method.

The approved method of estimating the South Australian component of the total value of fringe benefits is only available where:

- ▶ existing records do not allow the identification of the actual fringe benefits which relate to South Australia, and
- ▶ the employer has formally requested to declare fringe benefits based on the alternative method.

The approved method of calculating the South Australian component of total fringe benefits involves two steps.

Step one — July to May monthly returns

The amount to be declared in each of the monthly returns July to May, is one twelfth of the total value of the fringe benefits declared in the FBT return for the year ending 31 March (immediately preceding the current financial year) grossed up by the Type 2 factor, adjusted by the ratio of total South Australian taxable wages, to total Australian taxable wages, for the full financial year (immediately preceding the current financial year).

Step two — Annual Reconciliation

The amount to be declared in the Annual Reconciliation is the total value of fringe benefits declared in the FBT return for the year ending 31 March, immediately preceding the Annual Reconciliation grossed up by the Type 2 factor, adjusted by the ratio of South Australian taxable wages to Australian taxable wages, for the current financial year.

The South Australian taxable wages and the Australian taxable wages in the above two steps should not include fringe benefits.

Example 2

The value of fringe benefits of XYZ Pty Ltd in its 31 March 2015 FBT return after grossing up by the Type 2 factor is \$120 000. XYZ Pty Ltd paid a total of \$600 000 (excluding fringe benefits) in taxable wages for the 2015-16 financial year, of which \$300 000 (excluding fringe benefits) were South Australian wages.

Step one

\$300 000	x \$120 000	= \$60 000
\$600 000		estimated South Australian fringe benefits

Therefore, \$60 000 ÷ 12 = \$5 000 of fringe benefits is to be declared in each monthly South Australian payroll tax return from July 2015 to May 2016.

The value of fringe benefits of XYZ Pty Ltd in its 31 March 2016 FBT return after grossing up by the Type 2 factor is \$180 000. The total Australian taxable wages for the 2015-16 financial year were \$800 000 (excluding fringe benefits), of which \$600 000 (excluding fringe benefits) were South Australian taxable wages.

Step two

\$600 000	x \$180 000	= \$135 000
\$800 000		

The South Australian component of fringe benefits to be declared in the 2015-16 Annual Reconciliation is \$135 000.

Employers who are unable to calculate the actual South Australian component of fringe benefits and are unable to adopt the approved method or believe they would be disadvantaged by adopting the approved method, should seek approval from the Commissioner to adopt an alternative method.

Adoption of ATO fringe benefits tax rulings

In order to follow as closely as possible the effect of the FBT Act, the Commissioner will adopt all rulings issued by the ATO which relate to fringe benefits tax (with the exception of rulings relating to employee share schemes).

Further Information

Further information can be obtained from RevenueSA.

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History

This Revenue Ruling is effective from 1 July 2016 and replaces:

Document	Issue Date
PTA003 [V1]	1 July 2009
Circular 299	3 July 2008

Graeme Jackson
COMMISSIONER OF STATE TAXATION

1 July 2016