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Fringe benefits tax gap

How we estimate and reduce the fringe benefits tax (FBT) gap for 2020-21.

Last updated 30 October 2023

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Overview

Last updated 30 October 2023

Under the *Fringe Benefits Tax Assessment Act 1986*, employers are obligated to pay tax on certain benefits they provide to their employees, or to their employees' family or other associates.

FBT is separate to income tax. It is calculated on the taxable value of the fringe benefit. Employers must:

- self-assess
- if they have a liability, they must lodge an FBT return, and
- pay the FBT they owe.

Employers must also report the benefits through Single Touch Payroll or on an employee's payment summary if the total value of the reportable fringe benefits provided to an employee during the year is more than \$2,000.

The Reportable Fringe Benefit Amount (RFBA) is:

- not part of an employee's assessable income, but
- is included in income tests for some government benefits and obligations.

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Latest estimate and trends

Last updated 30 October 2023

For 2020–21, the net fringe benefits tax (FBT) gap estimate was \$1,275 million or 28.2%. In other words, those with an FBT liability are expected to pay around 72% of the total theoretical FBT for 2020–21.

Table 1 below shows the net gap has increased by 8.1 percentage points in 2020–21 from 2019–20, driven largely by a sharp decline in the amount of FBT voluntarily reported. While there has been a downward trend in FBT reported voluntarily for a number of years now, the 16.8% drop in 2020–21 was much larger than any declines in previous years.

The decline in voluntary FBT in 2020–21 was across all industries and fringe benefit categories of car, housing, meal entertainment and other benefits. It likely reflects economy-wide impacts from COVID-19 as economic disruptions and changes in employees' work patterns resulted in less fringe benefits being offered by employers during the pandemic-affected years.

At the same time, there might have been an increase in FBT underreporting by employers facing greater financial hardship as their businesses were affected by lockdowns and reduced consumer spending. At this stage, we have not been able to determine the relative contributions of those factors to the contraction in FBT payable.

It is important to recognise that the FBT system is a component of the broader PAYG withholding income tax on salary and wages regime. When we view PAYG withholding and FBT together, the integrated gap is approximately 2.2%. This means employers are voluntarily paying close to 98% of taxes related to their employees' remuneration.

This gap forms a part of our overall tax performance program. Find out more about tax gaps, including why and how we measure them, and a summary of the latest available tax gap data.

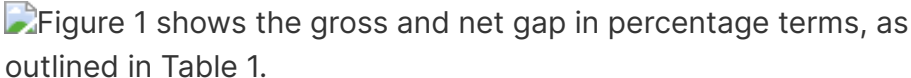
Table 1: FBT gap – 2015–16 to 2020–21

Element	2015–16	2016–17	2017–18	2018–19
Population	825,499	848,613	852,408	855,047
Net revenue effect gross gap (\$m)	1,732	1,303	1,390	1,263
Amendments (\$m)	24	31	29	23
Net revenue effect net gap (\$m)	1,708	1,272	1,361	1,240

Expected collections (\$m)	4,333	4,160	3,858	3,906
Theoretical liability (\$m)	6,041	5,432	5,219	5,147
Net revenue gross gap (%)	28.7	24.0	26.6	24.5
Net revenue net gap (%)	28.3	23.4	26.1	24.1

Figure 1 displays the trend in the gross and net income tax gap over the same period as a percentage.

Figure 1: FBT net revenue effect gap summary diagram 2015–16 to 2020–21 (percentage)

Figure 1 shows the gross and net gap in percentage terms, as outlined in Table 1.

What's driving the gap

The primary driver is employers not participating in the FBT system when they provide benefits to employees.

An example of this is when an employer doesn't lodge an FBT return but provides motor vehicle benefits to their employees.

Contact between tax agents and their clients for FBT matters is often ad hoc in nature. This contrasts with the strong focus and regular contact on income tax and GST. Some employers may not want to engage a tax agent to undertake FBT work because they do not want the additional cost.

Around a third of FBT adjustments result from a lack of awareness by either the employer or the tax agent. There are issues in understanding:

- FBT law

- rules of valuing, calculating, reporting and paying FBT on benefits provided
- concessions and exemptions for example, car fringe benefits errors in relation to which vehicles are exempt.

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ATO action to reduce the gap

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On this page

Helping employers to get it right

Correcting employers who don't get it right

We're committed to increasing willing participation in the FBT system and we focus on reducing non-compliance in 2 ways:

- helping employers to get it right
- correcting employers who don't get it right.

Helping employers to get it right

We recognise complexity in the fringe benefits tax (FBT) law can make it difficult for employers to understand or engage with the system.

To help employers get it right, we:

- offer information on our [website](#), in printed publications, in videos published on [atoTV](#) [↗](#) and via social media
- have the [Fringe benefits tax – a guide for employers](#) which is an additional resource that provides more comprehensive information

- conduct information sessions including webinars on the most common fringe benefits – cars and expense payments
- use our insights as part of a communication and media strategy to improve employer understanding and increase voluntary participation
- engage with industry and professional associations to promote education strategies, gather insights to inform areas of focus leverage our treatment strategies.

We continue to focus on designing educational products specifically for small business employers and use marketing and communications to encourage their participation.

Correcting employers who don't get it right

We address non-compliance through data analysis to identify potentially non-compliant employers for review or audit.

From 2023–24, we will be increasingly nudging employers via letters, emails and phone calls to check their obligations and lodge FBT returns if they have an FBT liability.

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Methodology

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Step 1: Identify the population and summarise the engagement activities

Step 2: Estimate the gap components and adjust for deductibility

Step 3: Estimate the theoretical liability

Summary of estimation process

Limitations

Updates and revisions to previous estimates

To estimate the fringe benefits tax (FBT) gap, we use the a bottom-up methodology. We selected this method as it draws on our ongoing engagement activities and operational intelligence.

Step 1: Identify the population and summarise the engagement activities

We identify the employer population through PAYG withholding records. We put these into subpopulations that align to our engagement activities. Key to this is the identification of FBT registered employers and those not registered for FBT. Those employers not registered for FBT include:

- employers that declare employee contributions and/or had reportable fringe benefits amounts in their employees' PAYG withholding records, but do not lodge an FBT return
- employers that do not lodge an FBT return or report employee contributions/reportable fringe benefits, but claim motor vehicle expenses in their income tax return
- all other employers that do not lodge an FBT return but do not fit into the previous categories.

Step 2: Estimate the gap components and adjust for deductibility

We use our case data to estimate the average amount of non-compliance for each of our subpopulations. As we don't look at every taxpayer, we use the data we have and extrapolate that to the whole population.

We realise the following:

- We select cases based on the risks they present – not all taxpayers will have the same level of non-compliance as those that we have adjusted, so we account for this selection bias in our estimate.
- We may not find every issue or every dollar when we are looking for non-compliance

- we apply a non-detection factor to the unreported tax liability to account for this.
- There is debt that we will not be able to pursue due to being irrecoverable at law or uneconomical to pursue
 - we account for this through our non-pursuable debt factor.
- Employers can claim an income tax deduction for the fringe benefits they provide
 - we determine the size of the forgone income tax deduction that would have been realised if FBT were correctly reported.
 - we then adjust by the relevant income tax rate and subtract from the sum of unreported tax, non-detection and non-pursuable debt amounts to produce the net revenue effect amounts.

Step 3: Estimate the theoretical liability

The amounts from step 2 are combined to determine the gross gap. To derive the net gap, amendments (compliance results) are subtracted from the gross gap.

The gross gap is then added to the tax voluntarily paid amount to estimate the theoretical tax liability. The theoretical tax liability represents the amount of revenue that we would expect with full compliance in the FBT system.

Summary of estimation process

The steps for the estimation process and the results for each year as a dollar amount and percentage are shown in Table 2.

Table 2: Applying the methodology, FBT gap, 2015–16 to 2017–18

Step	Description	2015–16	2016–17	2017–18	% of total
1.1	Population	825,499	848,613	852,408	85
1.2	Amendments (\$m)	24	31	29	

2.1	<i>add</i> estimated unreported amounts (\$m)	1,886	1,383	1,480	
2.2	<i>add</i> Non- pursuable debt (\$m)	5	5	5	
2.3	<i>add</i> Non- detection (\$m)	501	372	396	
3.1	<i>equals</i> Gross gap (\$m)	2,416	1,790	1,910	
3.2	<i>subtract</i> estimated impact of income tax deductions (\$m)	684	487	520	
3.3	<i>equals</i> Net revenue effect gross gap (\$m)	1,732	1,303	1,390	
3.4	<i>subtract</i> amendments (\$m)	24	31	29	
3.5	<i>equals</i> Net revenue effect net gap (\$m)	1,708	1,272	1,361	
3.6	<i>add</i> Expected collections (\$m)	4,333	4,160	3,858	
3.7	<i>equals</i> Theoretical tax liability (\$m)	6,041	5,432	5,219	

3.5	Net revenue gross gap (%)	28.7	24.0	26.6	
3.6	Net revenue net gap (%)	28.3	23.4	26.1	

Find out more about our overall research methodology, data sources and analysis for creating our tax gap estimates.

Limitations

The following caveats and limitations apply when interpreting this tax gap release:

- There is no independent data source which can provide a credible or reliable macroeconomic-based estimate (unlike transaction-based taxes).
- The data available does not indicate whether the amendments processed were due to our action or taxpayers correcting their own errors.
- There is a high level of uncertainty around the level of non-detection – the current factor used to account for non-detection is based on factors used in other gaps, and other jurisdictions.
- Compliance results are focused on establishing a case record for aggregate non-compliance – this causes multiple years to be present in each result requiring high-level assumptions around aggregation for use in this estimate.

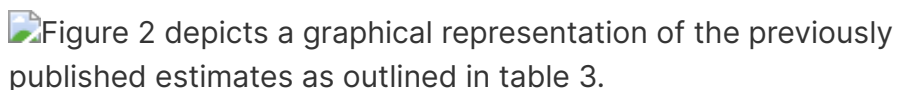
Updates and revisions to previous estimates

Each year we refresh our estimates in line with the annual report. Changes from previously published estimates occur for a variety of reasons, including:

- improvements in methodology
- revisions to data
- additional information becoming available.

This gap was first published in October 2020 and has been revised for the 2022–23 Annual Report. The impact of these revisions is shown in the figure below.

Figure 2: Current and previous net revenue effect net gap estimates, 2014–15 to 2020–21

Figure 2 depicts a graphical representation of the previously published estimates as outlined in table 3.

This data is present in Table 3 as a percentage.

Table 3: Current and previous FBT gap estimates, 2014–15

Year	2014–15	2015–16	2016–17	2017–18	2018–19
2023 program	n/a	28.3%	23.4%	26.1%	24.1%
2022 program	26.7%	28.4%	21.1%	22.1%	22.0%
2021 program	25.1%	26.7%	22.0%	22.4%	22.6%
2020 program	25.2%	26.8%	22.0%	21.2%	n/a

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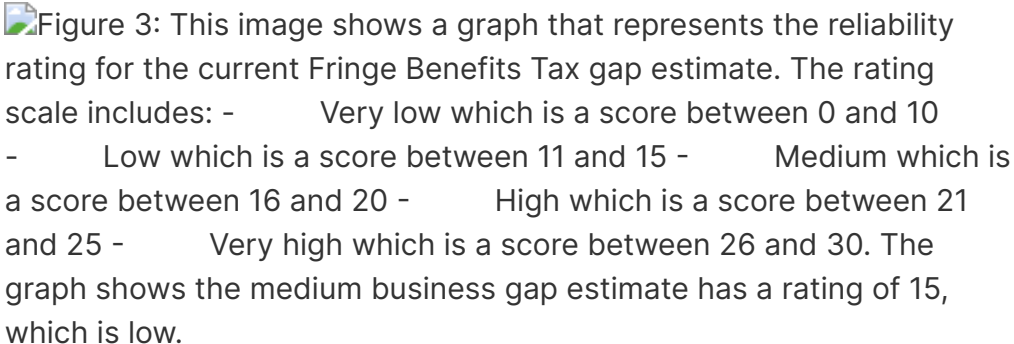
Reliability

Last updated 30 October 2023

We regularly review the reliability ratings for our estimates. Owing to demonstrated sensitivity of the estimate to a number of judgment-based assumptions, the reliability rating for this estimate has been assessed as **low** with a score of 15.

Due to the low reliability of this estimate, we are in the process of developing a new, regression-based approach for estimating the fringe benefits tax gap.

Figure 3: Reliability rating scale from very low to very high – FBT gap

Figure 3: This image shows a graph that represents the reliability rating for the current Fringe Benefits Tax gap estimate. The rating scale includes: - Very low which is a score between 0 and 10 - Low which is a score between 11 and 15 - Medium which is a score between 16 and 20 - High which is a score between 21 and 25 - Very high which is a score between 26 and 30. The graph shows the medium business gap estimate has a rating of 15, which is low.

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