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Cars and FBT

How FBT applies to cars, private versus business use, car leasing, and calculating the value of a car fringe benefit.

How FBT applies to cars

Check the definition of a car, how FBT applies, and the difference between private and business use.

Car leasing and FBT

Find out how the type of car lease affects the amount of FBT you pay.

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Use the FBT car calculator or work out taxable value manually with the statutory method or operating cost method.

QC 71126

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Last updated 13 January 2025

Learning resources

Car fringe benefits

Media: Car fringe benefits
https://tv.ato.gov.au/ato-tv/media?v=bd1bdiuba933nn (**Duration:** 00:50)

Resources for small business

To help understand your car fringe benefits tax (FBT) obligations:

- Complete our Car fringe benefits tax course on our small business learning platform, and learn
  - how to determine if you're providing a car fringe benefit
  - methods to calculate your FBT
  - how to reduce your FBT obligation.
- Download our Car fringe benefits tax guide for small business (PDF, 415KB) to check whether you are providing a car fringe benefit, and learn:
  - what this means for your business
  - how to calculate your FBT
  - which records to keep.

What is a car fringe benefit?

As an employer, you may have to pay FBT if you provide an employee with private use of:

- a passenger vehicle designed to carry fewer than 9 passengers (including the driver), including a 4-wheel-drive vehicle but not a motorbike
- an eligible commercial vehicle, where the use exceeds limited private use (limited private use of an eligible commercial vehicle may be exempt).

Exempt car or vehicle benefits

You don't pay FBT if you provide an employee with private use of a vehicle and:

- it is an exempt use of an eligible commercial vehicle
- the vehicle is an eligible electric car
- it is a minor benefit – that is, the taxable value of the benefit is less than $300 and it would be considered unreasonable to treat it as a fringe benefit
- the employee's duties relate to a public hospital (unless the amount of benefit provided to the employee exceeds the relevant threshold)
- you provided the car for compassionate travel (to find out what qualifies as 'compassionate travel', see Guide to FBT: 20.2 Transport exemptions).

A car you own or that is leased

When you are checking whether FBT applies, it doesn't matter if the car is owned or leased.

However, there may be a difference in the *amount* of FBT you pay. If the car is leased, and it's not a bona fide lease, you may pay more FBT.

Private versus business use

FBT applies to your employee's private use of your car, not their business use.

A simple way to work this out is to ask yourself: if the employee had paid for the costs of using the car (such as fuel), could they have claimed an income tax deduction for the whole cost? If the answer is yes, it is a business use of the car.

Private use

FBT applies if your car is used or available for private use by your employee or their associate. This includes:

- home garaging, unless it is an emergency service car
- doing work tasks on the way to or from work

- a car in a workshop for minor repairs or maintenance
- hiring a car.

Home garaging

If your employee garages a car at or near their home, even if only for security reasons, it is considered to be available for their private use. This is the case whether or not they have permission to use the car privately.

Similarly, if their place of employment and residence are the same, the car is considered to be available for their private use.

In either situation FBT applies.

Special rules for emergency service cars

FBT does not apply if your employee home garages an emergency service car. This is a car:

- used by an ambulance, police or fire fighting service
- fitted with exterior markings indicating it is an emergency service car, and
- equipped with a flashing warning light and horn, bell or alarm.

Doing work tasks between home and work

If your employee is travelling between home and work and stops off to do some work on the way – such as collect your mail – it is still private use. This means FBT applies.

However, there are situations when travel between home and work may be business use.

Car in workshop

If your employee has access to your car for private use, and the car is in a workshop for:

- routine servicing or maintenance – it is still available for their private use, so FBT applies
- extensive repairs (for example, following an accident) – it is not available for their private use, so FBT does not apply.

Hiring a car

If you hire a car and make it available for your employee's private use, FBT applies in the same way as if you owned the car. If you hire the car for:

- less than 3 months, you treat it as a residual fringe benefit
- 3 months or more, you treat it as a car fringe benefit.

Business use

FBT does not apply to your employee's business use of your car. For example, when your employee uses a car to go from their workplace to a client's premises, it is business use.

If FBT does not apply because your employee's use is only for business, it also does not apply to road or bridge tolls you pay for your employee's use of the car.

When travel between home and work is business use

Travel between home and work is usually private, even if your employee stops off to do something work-related on the way.

However, travel between home and work is considered business use if:

- your employee is on-call and they start work on receiving a call
- the nature of the employment is itinerant, which means
  - travel is a fundamental part of your employee's work
  - it is impractical for your employee to perform their duties without the use of a car
  - the terms of employment require your employee to perform duties at more than one place of employment
  - the nature of the job itself makes travel in the performance of duties essential
- the job is not inherently itinerant, but your employee is required in the ordinary course of duties to visit people such as clients or customers
- your employee takes the car home at the end of the day solely to use it for a business journey from their home the next morning.

For a detailed explanation of when travel between work and home may be considered business use, see our Miscellaneous Taxation Ruling

MT 2027 *Fringe benefits tax: private use of cars: home to work travel*.

What to do if you provide a car fringe benefit

If you provide a car fringe benefit, you need to:

1. work out the taxable value of the car fringe benefit
2. calculate how much FBT to pay
3. lodge your FBT return
4. pay the FBT amount
5. check if you should report the fringe benefit through Single Touch Payroll (or on your employee's payment summary).

Claiming tax deductions

You can claim a deduction for expenses for cars (and other motor vehicles) used in running your business. If you pay FBT, the:

- FBT you pay is tax deductible
- private use expenses of the car that you pay FBT on is tax deductible.

Authorised by the Australian Government, Canberra.

QC 71127

Car leasing and FBT

Find out how the type of car lease affects the amount of FBT you pay.

Last updated 12 January 2023

How FBT applies to leased cars

If you lease a car for your employee's private use, fringe benefits tax (FBT) applies.

Car leasing is commonly done through a novated lease in a salary sacrifice arrangement.

The amount of FBT you pay, and the way you calculate it, depends on whether the lease is bona fide:

- If it is a bona fide lease, the arrangement is a car fringe benefit. The FBT you pay is based on the taxable value of a car fringe benefit.
- If it is not a bona fide lease, the arrangement is a property fringe benefit (for the car itself) or residual fringe benefit (for the use of the car). This may mean you pay more FBT.

Bona fide lease

You must meet 3 conditions to have a bona fide lease.

If all 3 conditions are met, you treat the leased car as a car fringe benefit.

Condition 1: arm's length and on commercial terms

Check if all dealings between you, the lessor and your employee are at arm's length and on commercial terms.

An arm's length dealing is where each party acts independently and without influence or control over the other.

If this condition is not met, the lease is a property fringe benefit or residual fringe benefit.

Condition 2: residual value based on cost of car

Check that the terms of the lease are based on the residual value of the car, which is:

- based on a reasonable valuation of estimated market value at the end of the lease
- not based on the reduced, or net, cost – that is, the cost to the employer or lessor after any trade-in credit or employee cash contribution

- not less than the minimum residual values set out in ATOID 2002/1004 *Car lease residual values* on our legal database.

You also need to make sure that if your employee provides a trade-in vehicle or cash contribution towards the purchase of the car, this amount doesn't reduce the lease payments or residual value.

If this condition is not met, the lease is a property fringe benefit or residual fringe benefit.

Example: Bona fide lease arrangement with up-front cash contribution

Patrick's employer plans to provide him with a new car for private use, to the value of $40,000, under a novated lease.

Patrick chooses a car with a purchase price of $41,600, which includes $1,600 in on-road costs (registration, stamp duty, and dealer delivery fee).

Patrick pays the car dealer $1,600 of his own money to cover the on-road costs. Patrick and his employer enter into a lease with FMC. FMC, as lessor, pays the dealer the $40,000 balance.

Under the lease terms:

- lease payments are calculated so that, over the 3-year term, they equal $40,000 minus the residual value at the end of the lease, plus interest on the difference
- residual value is calculated as 46.88% of $40,000 = $18,752, which is the minimum residual value for leased assets with an effective life of 8 years (as specified in ATO ID 2002/1004).

For the purpose of calculating the taxable value of the car fringe benefit, the base value of the car is $40,000.

Condition 3: no pre-existing agreement to buy car at end of lease

When you set up the lease, it cannot include an agreement for your employee, their associate, nominee or agent to either:

- purchase the car after the end of the lease term

- be allowed to keep using the car after the lease termination.

This includes using a trade-in credit or cash contribution as a deposit or down payment towards the purchase of the car at the end of the lease.

If there is such an agreement:

- the lease is a property fringe benefit or residual fringe benefit
- payments made under the lease are considered capital, not lease payments. They are instalments under an arrangement to buy the car at some point.

Example: Car lease arrangement is not a bona fide lease

Sheila and her employer enter into a novated lease with FMC. Sheila will have private use of the car.

The car's list price is $65,000. FMC, as lessor, is the purchaser of the car and gets a $5,000 fleet discount. The car dealer recognises this discount when FMC acquires the car.

Sheila also trades in her own car to the dealer, valued at $20,000. This reduces FMC's purchase price to $40,000.

The terms of Sheila's FMC lease are based on the (net) $40,000 price.

The lease agreement states that:

- the car may be purchased at the end of the lease for a residual value based on FMC's net purchase price (30% of $40,000 = $12,000)
  - this is less than the minimum residual value for a $60,000 car in ATO ID 2002/1004
- payments, over the lease term equal $40,000 minus the residual value of the car at the end of the lease, plus interest on the difference.

As Sheila paid the $20,000 trade-in credit, her payments are less than standard commercial lease payments, and she is also able

to acquire the car at less than market value.

The lease is not bona fide, so Sheila's employer can't treat it as a car fringe benefit. Instead, they refer to information about providing a property fringe benefit.

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Taxable value of a car fringe benefit

Use the FBT car calculator or work out taxable value manually with the statutory method or operating cost method.

Last updated 6 March 2025

Use the FBT car calculator

FBT car calculator

You can use the fringe benefits tax (FBT) car calculator to work out the taxable value of a car fringe benefit, and to work out the amount of FBT to pay.

You can use either the statutory method or operating cost method.

Manually calculate taxable value

You can calculate the taxable value of a car fringe benefit using either the:

- statutory formula method
- operating cost method (if you have adequate records).

Once you know the taxable value of the fringe benefit, use this value to calculate the FBT to pay and ensure you keep the appropriate records.

You can learn how to use these methods by watching the Calculating your car fringe benefits video series.

Choosing the best method to calculate taxable value

You can use either method:

- for any or all of your cars
- regardless of which method you used in a previous year.

You don't need to tell us which method you've used, because your business records will show this. But you must choose your preferred method by the day your FBT return is due, or by 21 May if you don't need to lodge a return.

If you:

- have a fleet of 20 or more cars, there's an optional simplified record-keeping approach – see PCG 2016/10 *Fleet Cars: simplified approach for calculating car fringe benefits* in our legal database
- provide your employee with extensive private use of an eligible commercial vehicle, the rules for working out your FBT are different – see Taxable value of eligible vehicles.

Statutory formula method

To calculate the taxable value of car fringe benefits under the statutory formula method, you use:

- **A**, the base value of the car, which is the cost price you (or a lessor) paid for the car
  - excluding registration and stamp duty
  - after any trade-in or cash payment by the employee
  - plus the cost of any fitted non-business accessories, dealer delivery charges, and any GST and luxury car tax
- **B**, the statutory percentage, which is 20% (unless you had an arrangement in place before 31 March 2015)
- **C**, the number of days in the FBT year when the car was used or available for private use of an employee
- **D**, the number of days in the FBT year (365, or 366 in a leap year)

- **E**, the employee contribution.

The taxable value is (A × B × C ÷ D) − E.

Operating cost method

To use the operating cost method you must have adequate records to determine the car costs, logbook records and odometer records to apportion the private use.

If you don't have these records, you must use the statutory formula method.

To calculate the taxable value of car fringe benefits under the Records you need to keep

When record keeping for FBT, you must keep records that:

- show how you calculated the taxable value of the car fringe benefit
- support any exemption or concession you used.

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We are committed to providing you with accurate, consistent and clear information to help you understand your rights and entitlements and meet your obligations.

If you follow our information and it turns out to be incorrect, or it is misleading and you make a mistake as a result, we will take that into account when determining what action, if any, we should take.

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