MT 2023 - Fringe benefits tax : taxable value of new demonstrator motor vehicles and used car stock of motor vehicle dealers available for private use of employees.

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TAXATION RULING NO. MT 2023

FRINGE BENEFITS TAX : TAXABLE VALUE OF NEW DEMONSTRATOR MOTOR VEHICLES AND USED CAR STOCK OF MOTOR VEHICLE DEALERS AVAILABLE FOR PRIVATE USE OF EMPLOYEES.

F.O.I. EMBARGO: May be released

REF H.O. REF: 85/7541 DATE OF EFFECT: Immediate

B.O. REF: DATE ORIG. MEMO ISSUED: 9 July 1986

F.O.I. INDEX DETAIL

REFERENCE NO:	SUBJECT REFS:	LEGISLAT. REFS:
I 1210117	FRINGE BENEFITS TAX	FRINGE BENEFITS TAX ASSESSMENT ACT: s.7 & s.9

PREAMBLE Section 7 of the Fringe Benefits Tax Assessment Act 1986 sets out the circumstances in which a car benefit will be taken to arise for fringe benefits tax purposes.

*[**Note:** This is a consolidated version of this document. Refer to the Tax Office Legal Database (http://law.ato.gov.au) to check its currency and to view the details of all changes.]*

2. A statutory formula is specified in section 9 of the Act as one of the alternative methods that may be used in determining the taxable value of car fringe benefits provided to employees. The formula operates on a per car basis taking as the taxable value a statutory percentage of the "base value" of the car - broadly its cost price in the case of a car owned by the employer or its market value when first leased in the case of a leased car. The statutory percentage varies according to the total number of kilometres travelled in the year of tax.

3. It has been submitted on behalf of motor vehicle dealers that as vehicles in the industry have a rapid turnover rate and there exists a high ratio of pool vehicles to employees, application of the statutory formula can present practical problems. For dealers who wish to adopt the statutory formula in calculating the value of car fringe benefits, the factors referred to could be sources of difficulties in identifying for each vehicle, in the context of a constantly changing "pool" of demonstrator or used car stock, its cost price and the number of kilometres travelled calculated on an annualised basis. The fact that employees such as car salesmen commonly have random access to all cars in the "pool" is another aspect tending to make difficult a precise application of the statutory formula method. To assist in overcoming the concerns of employers in this industry the following advice has been given.

RULING NEW DEMONSTRATOR MOTOR VEHICLES

Base Value

4. The base value of a vehicle under the statutory formula method is the cost price to the dealer (including subsequently fitted accessories) grossed up in the case of new vehicles to include sales tax.

5. Where the dealer maintains a pool of new demonstrator vehicles which are also available for private use by the employees it would be sufficient for the application of the statutory formula method to establish the average actual cost of the pool of vehicles. The numbers and total costs of vehicles in the pool would need to be identified quarterly to take into account possible fluctuations in the numbers and values of such vehicles over the course of a year.

6. The average vehicle cost on a yearly basis could then be taken as the sum of the total quarterly vehicle costs divided by the number of vehicles in the pool at the end of each quarter.

Example

- Assume at end of quarter to 30 June a dealer has 8 pool cars costing in total $136,000 (including sales tax);
- At end of quarter to 30 September - 12 cars, costing $240,000;
- At end of quarter to 31 December - 8 cars, costing $128,000;
- At end of tax year to 31 March - 12 cars, costing $216,000.
- The average cost for the pool vehicles for the year would therefore be $18,000 in this example (i.e. $\frac{\$720,000}{40}$)

(For the transitional year, i.e., the 9 month period 1 July 1986 to 31 March 1987, 3 quarterly listings would be taken of pool cars and their cost to establish the average cost price as above).

Statutory Percentage

7. It will be accepted as a general proposition that each salesman or other employee of a motor vehicle dealer having regular access to pool vehicles for business and private use would travel in excess of 15,000 kilometres but less than 25,000 kilometres in a full year in the pool vehicles. (Between 11,250 and 18,749 km in the transitional year.) This means that the statutory percentage for such vehicles would be 20 per cent in a full year.

8. It would also be acceptable for the total taxable value of fringe benefits in respect of the demonstrator pool to be calculated by multiplying the average number of employees (calculated quarterly) having access to the pool vehicles by the average vehicle cost as calculated above and applying the statutory percentage as indicated. Lists identifying these employees and their positions in the firm should be retained by the motor vehicle dealer in support of the calculations.

Example

- Assume the average base value of a pool vehicle is $18,000 in the transitional year.

- 10 employees on average have access to the pool vehicles.

- Total base value would therefore be $180,000 (i.e 10 x $18,000) and the statutory percentage would be 13.5 per cent.

- Assume also that no employee contribution was made towards the running costs of the vehicles.

Total taxable value = $\frac{180{,}000 \times 13.5}{100}$

= $24,300

Fringe Benefits Tax (at the rate of 46%) = $\frac{24{,}300 \times 46}{100}$

= $11,178

USED CAR POOLS

9. Similar procedures are acceptable in the application of the statutory formula method of taxing the benefit of employees' private use of a used car dealer's stock. The base value of the vehicles can be taken as the average cost price, determined on the basis of quarterly inventory listings and actual prices paid, of the whole of the used car stock, where the employees have access to all vehicles in the yard.

10. It should be noted that the arrangements outlined above only relate to the adoption of the statutory formula method. They have no application to any vehicle in respect of which an employer elects to adopt the actual cost method of determining the taxable value of a fringe benefit pursuant to sub-section 10(1) of the Act. Under the actual cost method the law expressly requires detailed log books and running cost records to be kept on a per vehicle basis.

11. The above arrangements are approved on the basis that they will result in payment of the correct level of fringe benefits tax required under the law. It is expected that a dealer's quarterly counts of demonstration and used car pools will be taken in a way that fairly reflects the number and value of such cars available for the private use of employees during the quarter. The arrangements would not apply in the case of any dealer whose calculations were made on the basis of low quarterly numbers and values that were unrepresentative of the position throughout the relevant period.

COMMISSIONER OF TAXATION
28 August 1986