

What Changed In April 2006



Below is a summary of some of the more important changes arising from the new legislation which took effect in April 2006

Fringe Benefit Tax (FBT)

1. There are now 2 methods you can use as the basis of calculating your FBT liability on vehicles:
 - a. Cost Method – this is the purchase/cost price of the vehicle (GST inclusive). Current method.
 - b. Tax Value method – this is where you use the tax (book) value of the vehicle at the beginning of the year. If the vehicle is purchased in the current period the Tax Value is based on the cost price for that income year. This method calculates your FBT liability on the reducing value of the vehicle each year rather than the original cost price – however a higher tax rate applies which effectively cancels out any benefit gained (sound familiar).
2. The benefit calculation rate will drop from 6% per quarter to 5% per quarter (or from 24% to 20% per annum) of the GST inclusive cost when the Cost Method is used.
3. If the Cost Method has already been used for any vehicle, then it must continue to be used for at least the remainder of the five year period from when it was first used, before a change can be made to using the Tax Value Method. This means that, at the present time, the Tax Value Method can only be used for vehicles that become subject to the FBT regime on or after 1 April 2006, or have already been in the FBT regime for 5 years under the Cost Method.
4. Both methods use the GST inclusive amounts.
5. The benefit value for FBT purposes of a vehicle is summarised as follows:
 - a. When FBT is calculated on the Cost Method the benefit calculation rates are:
 - Quarterly - 5% of the GST inclusive cost, or 5.625% of GST exclusive cost.
 - Income Year basis – 20% of the GST inclusive cost, or 22.5% of GST exclusive cost.
 - b. When FBT is calculated on the Tax Value Method the benefit calculation rates are:
 - Quarterly - 9% of the GST inclusive tax value, or 10.125% of GST exclusive tax value.
 - Income Year basis - 36% of the GST inclusive tax value, or 40.5% of GST exclusive tax value. i.e. the tax book value shown in the Assets and Depreciation Schedule as at the end of the previous financial year.
6. The minimum value that can be used under the Tax Value Method is \$8,333, (GST inclusive). Even though the tax value of the vehicle may be considerably lower than \$8,333 the IRD says this figure recognises that there is still a benefit provided to the employee irrespective of the value of the vehicle. This minimum does not apply to the cost method.

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8. In the first return for a vehicle entering the FBT regime after 1 April 2006, the employer may calculate the value of the benefit using either the Cost Method or the Tax Value Method. Under either choice, in the first year the value of the benefit is the same, but the FBT payable will be much greater using the Tax Value Method because of the 36% rate used.

Whatever method is chosen it must continue to be used in each subsequent return until the earliest date of:

- a. The date of disposal of the vehicle:
 - b. The date when the vehicle ceases to be leased:
 - c. 5 years after the beginning of the period of the initial return.
9. After the 5 year period has passed, the calculation may be done using either of the two valuation methods.

There is little advantage in using the Tax Value Method unless the vehicle is going to be owned for many years, our calculations make it to be around seven years.

10. If a vehicle is to be owned by an employer and made available for private use to an employee for a period of more than three years, the arrangement should be reviewed at the end of three years to determine whether the vehicle should be sold to the employee and thereby taken out of the FBT regime.
11. An FBT day starts at midnight by default, but you can elect another start time e.g. If an employer opts for the day to start at Midday (instead of midnight) and the employee is only permitted to have private use of the vehicle from 5pm Friday to 9am Monday this will reduce the available days for private use from 4 to 3 (a saving in FBT).
12. Leases of motor cars by shareholder-employees to a business (e.g 9-5 or flip flop leases) will generally become subject to FBT as from 1 April 2006
13. Any car owned by a business, which is not available for **any** private use, is still not subject to FBT.

For examples of the steps to be taken and the private use restriction letter please contact us. This is a valid option where there are other vehicles available for private use.

14. Travel between home and work may not count as private use if there is a justified reason for working at home.

Contact us if you want to see if this applies in your situation.

**Lease or Buy?
Company or Employee ownership?
Which FBT method?**

If you would like us to evaluate the best options for your situation please contact us.

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FBT, Vehicles and Tax Savings

If you fall into any of the following categories we recommend you contact us to discuss the impact of these new changes and the best way to structure your affairs from 1 April 2006.

- You currently have a 9-5/ Flip-Flop lease in place with your company/ trading trust/ employer.
- You or your company currently own a vehicle that is subject to FBT or
- You are likely in the future, to own or lease a vehicle that will become subject to FBT.

Other Changes

Unclassified Benefits

Unclassified benefits were previously limited to \$75 per quarter per employee with a maximum of \$450 per quarter per employer. These thresholds have been increased to \$200 per employee per quarter and \$15,000 per employer per year.

Health And Safety

Prior to 1 April 2006, benefits that might arise as a result of employers carrying out their Health and Safety Obligations could fall within the scope of FBT if they were not provided on the premises of the employer. These benefits are now exempt from FBT irrespective of whether the benefits are provided on or off the employer's premises. They must be related to the employee's health and safety and aimed at the elimination of hazards in the workplace as contemplated in the Health and Safety in Employment Act 1992.

Business Tools

The private use of a business tool that an employer provides to an employee, and the availability for private use of such a business tool, is not a fringe benefit if the business tool is provided mainly for business use; and the GST inclusive cost of the business tool to the employer is not more than \$5,000.

Income Protection Insurance

An employee can now claim a deduction for the premium on an income protection insurance policy that the employer has paid. Changes to the FBT legislation make the employer liable for FBT on the premium that they have paid.

However if an employer pays for, or contributes to, the payment of a premium for income protection insurance for the benefit of an employee, they do not provide a fringe benefit to the employee if any payout under the policy would be assessable income of the employee.

Advance on Salary or Wage

An employment-related loan is not subject to FBT if it is an advance of salary and wages, if the total of such advances to the employee is not more than \$2,000, and the contract of employment does not require the employer to make the advance.

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Benefits Provided On Premises

Benefits provided to employees on the employer's premises are generally exempt from FBT. The definition of "on-premises" is changed to include the premises of any other company that is in the same group of companies as the employer. A group is considered to have common ownership of at least 66%.

A benefit, other than free, discounted, or subsidised travel, accommodation, or clothing, is not a fringe benefit if it is provided to the employee by the employer (or a company that is in the same group of companies as the employer) and received or used by the employee on the premises of either the employer, or a company that is in the same group of companies as the employer.

Anti Avoidance

As from the 1st April 2006 the same anti avoidance rules that apply to income tax now apply to FBT. That means that the IRD may treat as void any tax avoidance arrangement and reverse any associated tax advantages that relates to income tax. This will give the Inland Revenue Department far greater powers to investigate and overturn FBT structures and schemes.

Depreciation Rate Changes

There have been changes to tax depreciation rates. The main ones are:

- (i) Most plant and equipment rates have increased (e.g. new computers).
- (ii) Building rates have reduced from 19 May 2005
- (iii) Most motor vehicle rates have increased

The following table shows the new and old rates including the 20% loading.

Note: DV = Diminishing Value SL = Straight Line

Asset	New Rate	Old Rate
New Car	36% DV	31.2% DV
Second-hand or imported Used Car	30% DV	26% DV
New Computer	60% DV	48% DV
Second-hand Computer	50% DV	40% DV
Buildings	3% SL	4% SL

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