



**TTF**  
AUSTRALIA  
Tourism & Transport Forum



Tourism & Transport Forum (TTF)  
Position Paper

# Reforming Fringe Benefits Tax

November 2010



Tourism & Transport Forum (TTF) is a national, Member-funded CEO forum, advocating the public policy interests of the 200 most prestigious corporations and institutions in the Australian tourism, transport, aviation & investment sectors.

## CONTENTS

OVERVIEW	1
THE IMPACT OF FBT: A TRANSPORT PERSPECTIVE	2
THE CASE FOR REFORM	5
TTF POSITION	8

FOR FURTHER INFORMATION PLEASE CONTACT:

**KARY PETERSEN**  
Manager, Transport  
Tourism & Transport Forum  
T | +61 2 9240 2013  
E | [kpetersen@ttf.org.au](mailto:kpetersen@ttf.org.au)

**LUKE TURNER**  
Transport Policy Officer  
Tourism & Transport Forum  
T | +61 2 9240 2012  
E | [lturner@ttf.org.au](mailto:lturner@ttf.org.au)

## In short

1. FBT concessions for private motor vehicles cost the Commonwealth approximately \$1.7 billion per year.
2. The FBT system encourages and rewards motorists for driving more, and taxes employer-provided public transport benefits at up to seven times the rate applied to private vehicles.
3. FBT reform is needed so that the tax system more accurately reflects Australia's economic, social and environmental aspirations.
4. If the FBT continues on transport, it needs to be mode and distance neutral.

## Overview

According to the definition by the Australian Taxation Office (ATO), a fringe benefit is “*a benefit provided in respect of employment*”.<sup>1</sup> The current fringe benefit tax (FBT) rate is 46.5 per cent. A car fringe benefit is where an employer makes a car they own or lease available for an employee's private use.

The tax benefit for the employee arises through salary sacrificing arrangements. This requires the employer to pay FBT on the vehicle, thus reducing the total taxable income for the employee for the given period. For the employer, the benefit arises by providing the opportunity to reduce the amount of tax withheld on behalf of the employee, thereby boosting the business's cash flow. An additional benefit arises for both employer and employee, with a reduced rate of FBT payable the further a vehicle is driven (using the statutory formula).

Over two million vehicles are subject to FBT claims<sup>2</sup> every year costing the federal government approximately \$1.7 billion.<sup>3</sup> With the statutory formula providing an incentive for driving vehicles further, the regime actively encourages car dependency, increasing urban traffic congestion - which will cost Australia \$12.9 billion in 2010<sup>4</sup> - and contravenes the federal government's policy objective of fostering a sustainable population.

As well as reviewing the rationale for car fringe benefits, this paper proposes a number of options for reform, to provide – at the very least – a level playing field for public and private transport. In light of the clear benefits of increasing patronage on public transport, it is TTF's view that tax concessions for transport expenditure should be both mode and distance neutral. The simplest and most cost effective way to achieve this would be to abolish the FBT exemption for salary packaged cars.

---

<sup>1</sup> Australian Taxation Office, *What is fringe benefits tax*, retrieved 5 October 2010 from <http://ato.gov.au/businesses/content.asp?doc=/content/52005.htm>.

<sup>2</sup> Rural and Regional Affairs and Transport References Committee (2009) *Investment of Commonwealth and State funds in public passenger transport infrastructure and services*, Final Report page 111.

<sup>3</sup> Australian Tax Office, Taxation statistics 2007-08 - Fringe benefits tax, Table 7: *Fringe benefits, by employer type, taxable status and benefit type, 1997–98 to 2008–09 FBT years*, retrieved 5 October 2010 from [http://www.ato.gov.au/corporate/content.asp?doc=/content/00225078.htm&page=15#P1136\\_57143](http://www.ato.gov.au/corporate/content.asp?doc=/content/00225078.htm&page=15#P1136_57143).

<sup>4</sup> Bureau of Infrastructure, Transport and Regional Economics, “Estimating urban traffic and congestion cost trends for Australian cities,” Working Paper No 71 (2007), p109.

# The impact of FBT: a transport perspective

Employer-provided travel expenses are included in the FBT regime, however car travel is treated differently from travel by public transport. FBT exemptions and reductions are available for car travel whereas no such benefit exists for public transport travel.

For car travel there are two options for calculating a fringe benefit:

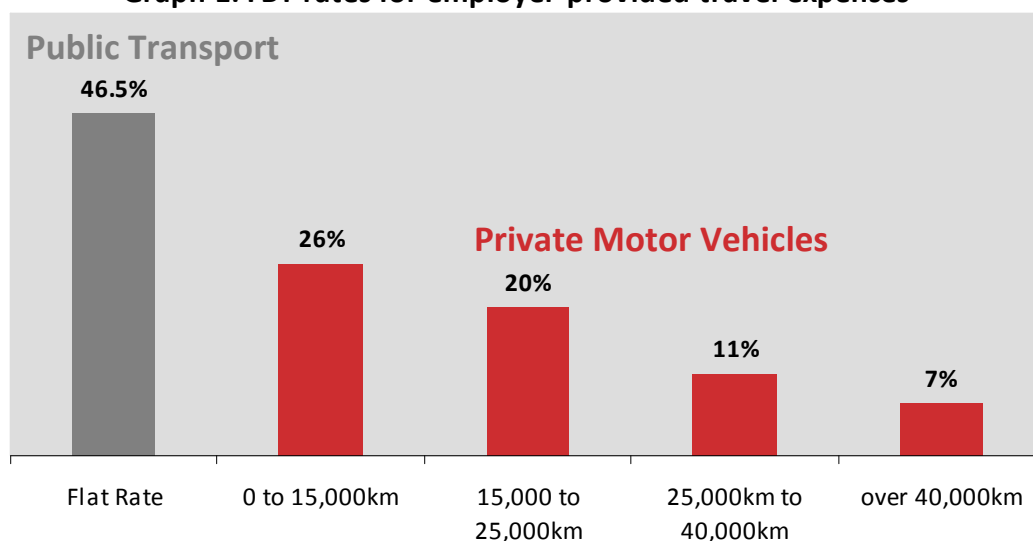
1. *The statutory formula* - The total cost of a salary-packaged car is subject to FBT, with a reduction in the rate the further an employee travels in a given year (see graph 1).
2. *The operating cost method* - All operating costs of a salary-packaged car (including expenses, depreciation, registration and insurance) are recorded in a 12-week log book then divided between business and non-business use. The non-business use is deemed the car fringe benefit.

Of the approximately \$1.7 billion spent on car fringe benefits in 2008-09 by the federal government, the statutory method accounted for 91.4 per cent of expenditure, while the operating cost method accounted for the remaining 8.6 per cent.<sup>5</sup> According to Federal Treasury, the statutory formula was introduced as a means to reduce the compliance burden of the operating cost method. The declining rate the further a car travelled was based on the rationale that the greater distances logged throughout the year represented travel over and above average private car use, which therefore could be assumed to represent business use.

According to the latest report of motor vehicle use, released by the Australian Bureau of Statistics in 2008, the average distance travelled by passenger vehicles in the year ending 31 October 2007 was 14,300 kilometres with the average distance travelled by passenger vehicles for business use 8,900 kilometres.<sup>6</sup>

The graph below<sup>7</sup> shows FBT rates for employer-provided travel expenses using the statutory formula. It shows that salary-packaged public transport expenses are taxed at a rate of 46.5 per cent - almost seven times the rate applicable to a private motorist driving in excess of 40,000 kilometres, who pays just seven per cent.

**Graph 1: FBT rates for employer-provided travel expenses**



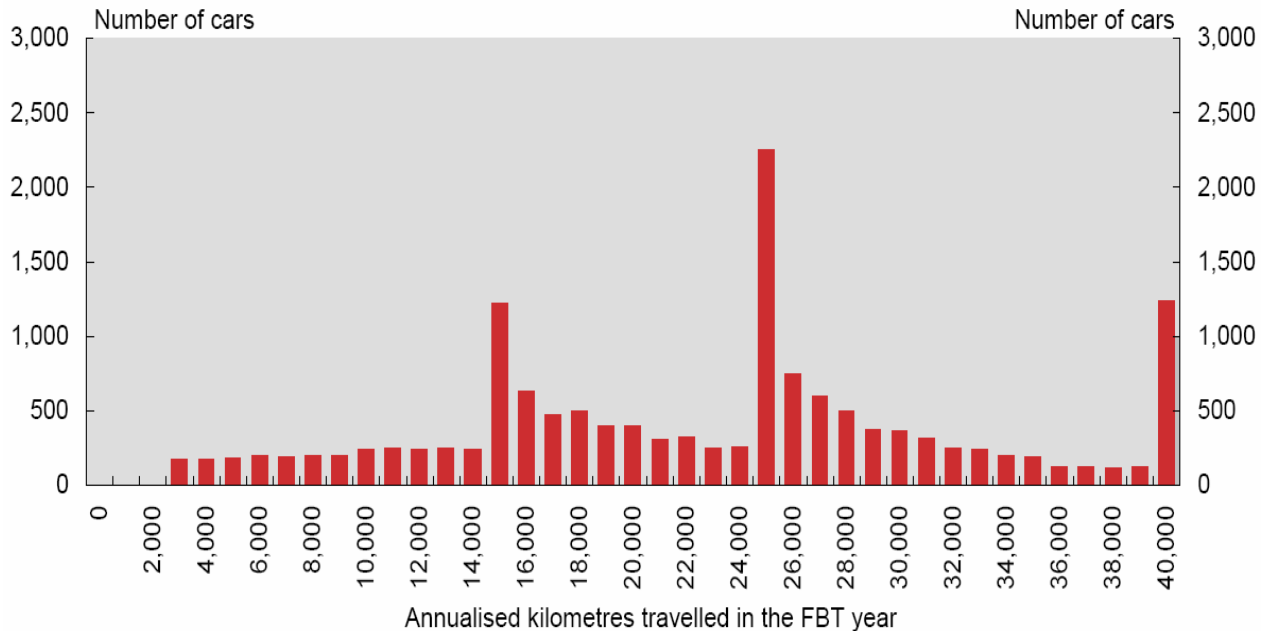
<sup>5</sup> Australian Tax Office, Taxation statistics 2007-08 - Fringe benefits tax, Table 7: *Fringe benefits, by employer type, taxable status and benefit type, 1997-98 to 2008-09 FBT years*, retrieved 5 October 2010 from [http://www.ato.gov.au/corporate/content.asp?doc=/content/00225078.htm&page=15#P1136\\_57143](http://www.ato.gov.au/corporate/content.asp?doc=/content/00225078.htm&page=15#P1136_57143).

<sup>6</sup> Australian Bureau of Statistics, *Survey of Motor Vehicle Use: 12 months ended 30 October 2007*, released 28 August 2008, p16.

<sup>7</sup> Sourced from the Australian Tax Office.

Graph 2, included in the Henry Tax Review, is an example of the impact of the current system on travel behaviour. While representative of the clients of just one fleet leasing company, it clearly shows a large proportion of vehicles travelling 15,000, 25,000 and 40,000 kilometres – the distances at the bottom range of each of the tax brackets.

**Graph 2: Number of vehicles by kilometres traveled**<sup>8</sup>



Such enormous benefits for car use over public transport use and a further benefit for driving longer distances brings about two key consequences: (1) it increases road use adding to traffic congestion, road degradation and carbon pollution; and (2) it discourages the use of public transport in urban areas.

## Economic impact

Concessions for car fringe benefits cost the federal government approximately \$1.7 billion per year<sup>9</sup>, representing one of the largest annual government tax expenditures. Car fringe benefits were introduced in 1986 as a demand stimulus to assist the domestic car manufacturing industry.<sup>10</sup> With no mechanism to ensure beneficiaries purchase a local product, it has become one of the most significant inefficiencies in our tax system.

Australian-made vehicles now account for only 15.7 per cent of total vehicle sales<sup>11</sup> and the domestic automotive industry receives extra Commonwealth assistance in the order of \$1.2 billion per year.<sup>12</sup> With the global financial crisis and a strong Australian dollar affecting export markets, the output of the Australian automotive industry has declined to a 50 year low.<sup>13</sup>

<sup>8</sup> *Australia's Future tax System (Henry Review): Report to the Treasurer*. Part 2, Page 46.

<sup>9</sup> Australian Tax Office, Taxation statistics 2007-08 - Fringe benefits tax, Table 7: *Fringe benefits, by employer type, taxable status and benefit type, 1997-98 to 2008-09 FBT years*, retrieved 5 October 2010 from [http://www.ato.gov.au/corporate/content.asp?doc=/content/00225078.htm&page=15#P1136\\_57143](http://www.ato.gov.au/corporate/content.asp?doc=/content/00225078.htm&page=15#P1136_57143).

<sup>10</sup> Rural and Regional Affairs and Transport References Committee (2009) *Investment of Commonwealth and State funds in public passenger transport infrastructure and services*, Final Report page 67.

<sup>11</sup> Department of Innovation, Industry, Science and Research (2010) *Outlook for the Automotive Industry Fact Sheet*, retrieved 8 February 2010 from [www.innovation.gov.au](http://www.innovation.gov.au).

<sup>12</sup> Rural and Regional Affairs and Transport References Committee (2009) *Investment of Commonwealth and State funds in public passenger transport infrastructure and services*, Final Report, page 68: quoted figure is the sum of direct subsidies and the net effect of tariffs on imported vehicles.

<sup>13</sup> Minister for Innovation, Industry, Science and Research, Senator The Hon Kim Carr, media release (10/1/2010): *Tenacious automotive industry a cause for optimism*.

Assuming this trend continues and considering expenditure on car fringe benefits is relatively constant, the FBT effectively subsidises the importation of foreign vehicles.

The level of car dependency encouraged by the FBT is another issue with significant economic implications. Increasing urban traffic congestion is a major national issue - choking our cities and putting the brakes on productivity. According to federal government estimates, congestion will cost Australia \$12.9 billion in 2010, rising to \$20.4 billion in 2020.<sup>14</sup>

Treasury figures show that every year, over 2 million vehicles are subject to FBT claims<sup>15</sup>, and with the statutory formula providing a higher monetary incentive for beneficiaries who drive their vehicles further, the FBT only serves to exacerbate the problem of congestion. Paradoxically, individuals are economically rewarded for adding to this problem.

In 2006, Ernst & Young undertook a comprehensive analysis of car fringe benefits in the Australian tax system for the NSW Ministry of Transport, highlighting the benefits for equivalent treatment of public transport in the scheme. Table 1 details the results of this analysis for workers on identical salaries commuting the average distance in Australia's capital cities. It clearly shows a monetary advantage to: (a) drive to work; and (b) salary package a vehicle. In the given scenarios, those with a total income package of \$50,000 who drive a salary-packaged car to work take home \$1,795 more a year than those who have a salary packaged car but catch public transport to work. Moreover, if the public transport user does not have a salary packaged vehicle that advantage increases to \$3,015 a year.<sup>16</sup>

**Table 1: Impact of FBT exemption on commuters**

	<b>Scenario 1</b> Private car; <i>Drives to Work</i>	<b>Scenario 2</b> Private Car; <i>PT to work</i>	<b>Scenario 3</b> Salary packaged car; <i>Drives to work</i>	<b>Scenario 4</b> Salary packaged car; <i>PT to work</i>
Total package (\$)	50 000	50 000	50 000	50 000
Less pre tax car costs	0	0	5 510	2 993
Taxable income	50 000	50 000	44 490	47 007
Less tax (incl Medicare)	11 100	11 100	9 364	10 157
Less after tax car costs	12 528	11 705	6 488	8 434
Less after tax PT costs	0	1 573	0	1 573
<b>Take home cash</b>	<b>\$26 372</b>	<b>\$25 622</b>	<b>\$28 637</b>	<b>\$26 842</b>
<b>Savings compared to Scenario 2</b>	<b>\$750</b>	<b>-</b>	<b>\$3 015</b>	<b>\$1 220</b>

Source: Ernst and Young (2006) *NSW Ministry of Transport: Tax Incentives for Public Transport Users*, p12

## Environmental impact

The environmental impact of car dependency is heavily documented and increasing the task of public transport in major urban centres is of critical importance to minimising the carbon footprint of Australia's transport sector.<sup>17</sup> By encouraging the use of private vehicles, FBT undermines growth in public transport patronage.

<sup>14</sup> Bureau of Infrastructure, Transport and Regional Economics, "Estimating urban traffic and congestion cost trends for Australian cities," Working Paper No 71 (2007), p109.

<sup>15</sup> Rural and Regional Affairs and Transport References Committee (2009) *Investment of Commonwealth and State funds in public passenger transport infrastructure and services*, Final Report page 111.

<sup>16</sup> Although it is a snapshot of the arrangements in 2006, many of the figures provided (including rates and thresholds) have only altered marginally since then. Therefore the table still provides an indicative representation of the overall benefit for those salary packaging a car and driving to work.

<sup>17</sup> For more in depth discussion please refer to TTF Transport Position Paper: *Public Transport and Climate Change*.

The Henry tax review has acknowledged that concessional car fringe benefits provide ‘a strong incentive for some employees to take a car as part of their remuneration package and to skew their consumption toward motor vehicle services’.<sup>18</sup> Such consumption is sanctioned by the statutory formula for work-related travel, which provides incremental incentives for beneficiaries who drive further, thus generating more CO<sub>2</sub> emissions. These incentives have resulted in many cases of beneficiaries driving excessively just to reach a higher threshold. The FBT rates of the different thresholds are illustrated in Graph 1. Considering that bus and rail transit is approximately six times less emissions-intensive than cars for the average urban commute<sup>19</sup>, the FBT delivers a perverse environmental outcome.

As policy makers and the wider community become increasingly conscious of climate change and resource scarcity, it is critical that policies such as the FBT are reviewed to keep pace with shifting attitudes. TTF asserts that it would be counter-productive if any other Commonwealth investment in sustainable transport or climate change mitigation were not accompanied by reforms to the FBT such as those proposed in this document.

## The case for reform

There is a general chorus of support for amending FBT legislation to end the horizontal tax disparity between transit modes, including from the head of the Federal Treasury, Ken Henry, the National Transport Commission, and public transport organisations such as the International Association of Public Transport, to name but a few.<sup>20</sup> FBT exemptions for salary packaged vehicles and the statutory formula for work-related travel represent distortions in Australia’s tax system – subsidising automotive imports and supporting regressive commuter behaviour.

TTF contends that the blanket application of the statutory formula encourages all workers to use their car, regardless of whether or not a viable public transport option is available for their daily commute. In this regard, the FBT is both a leak of potential tax revenue and an obstacle to the growth of more sustainable, low-impact transit modes.

## The Henry Review

The final report of the Henry tax review is critical of the statutory formula for car fringe benefits, stating explicitly that it “increases pollution and road congestion”.<sup>21</sup> Henry acknowledges the propensity of the statutory formula to encourage unnecessary car travel and recommends “The current formula for valuing car fringe benefits should be replaced with a single statutory rate of 20 per cent, regardless of the kilometres travelled.”<sup>22</sup>

TTF acknowledges that reducing the rate to 20 per cent (equivalent to the current 15,000 to 25,000 kilometres travelled rate) would better reflect current average car use and be in keeping with the need to minimise the compliance burden of the operating cost method for calculating car fringe benefits. However, adopting Henry’s recommendation would still provide substantial benefit for non-business car use, which represents 80 per cent of kilometres travelled in passenger vehicles (29 per cent of these kilometres for travel to and from work).<sup>23</sup>

---

<sup>18</sup> The Australia’s Future Tax System Review Panel [Henry tax review], *Australia’s Future Tax System Consultation Paper*, December 2008, p90.

<sup>19</sup> The Garnaut Climate Change Review, Page 509.

<sup>20</sup> For further advocates of FBT reform see Rural and Regional Affairs and Transport References Committee (2009) *Investment of Commonwealth and State funds in public passenger transport infrastructure and services*, Final Report pages 66-70.

<sup>21</sup> *Australia’s Future tax System (Henry Review): Report to the Treasurer*. Part 2, Page 45.

<sup>22</sup> *ibid*, recommendation 9(b)

<sup>23</sup> Calculated using Australian Bureau of Statistics, *Survey of Motor Vehicle Use: 12 months ended 30 October 2007*, released 28 August 2008, p16.

TTF believes Dr Henry’s recommendation does not address the horizontal inequity between public and private transport in the application of the FBT regime. There must be a level playing field for the treatment of transport under the tax system. The recommendation, while removing the incentive to travel greater distances, does not address the significant disparity in the treatment of cars compared to other transport modes in the tax system.

## A tax system for public transport

With a view to achieving mode and distance neutrality for transport fringe benefits, reforms must recognise the role urban passenger transport can play in unlocking the economic, social and environmental potential of Australia’s major cities. In the absence of a comprehensive Commonwealth strategy on passenger transport, tax incentives are the most powerful tool available to influence the behaviour of consumers in the transport market.

TTF considers the following options for reform:

1. *FBT exemption for public transport users equal to or greater than current rates for salary-packaged vehicles.*

This option would redress the imbalance between public and private travel in the tax system. By keeping the current exemptions on vehicles, it would serve to minimise the negative short-term impact on industries that require private vehicles, while encouraging those who utilise car fringe benefits but have little need for a private vehicle to switch to public transport. That said, with more than 1.3 billion trips on public transport in the five largest Australian cities in 2008-09<sup>24</sup>, this option would have a significant cost impact on the federal budget.

2. *A tax deduction for the cost of public transport on an individual’s income and/or a tax rebate for an individual’s public transport costs.*

Tax deductions or rebates for public transport fares in other countries have proven a successful method of reducing urban congestion and increasing the passenger task of public transport. The amount of the rebate or tax deduction would be the critical factor, as the incentive would need to be significant enough for those currently taking advantage of the FBT regime for private vehicle travel to switch to public transport. It would also determine the level of impact on the federal budget. The Canadian Government’s budget expenditure for the 15 per cent tax credit scheme for public transport costs was \$139 million in 2009.<sup>25</sup>

Below are some examples of the tax benefits provided to the citizens of other countries. TTF urges the consideration of similar policies for Australian taxpayers.

Country	Incentives
USA	Up to \$230 per month (\$2,760 per year) in employer-provided transport benefits available as a tax free allowance. <sup>26</sup> Eligible employees are able to “cash out” the value of employer-provided parking spaces as a tax-free salary

<sup>24</sup> Information supplied to TTF by each transport operator in each of the capital cities of Perth, Adelaide, Melbourne, Sydney, and Brisbane.

<sup>25</sup> Department of Finance Canada, *Tax Expenditures and Evaluations 2009*, p18.

<sup>26</sup> It is important to note that this allowance was increased from \$120 in March 2009 as part of the US economic stimulus package. The Washington Post, (26/2/2009): *Stimulus Fund Package Almost Doubles Allowance*, retrieved 5 October 2010 from <http://www.washingtonpost.com/wp-dyn/content/article/2009/02/25/AR2009022503303.html> and Washington Metropolitan Transit Authority, *Tax Advantages and the Law*, retrieved 5 October 2010 from [http://www.wmata.com/business/employer\\_fare\\_program/tax\\_advantages.cfm](http://www.wmata.com/business/employer_fare_program/tax_advantages.cfm).

<sup>27</sup> Ernst and Young (2006) *NSW Ministry of Transport: Tax Incentives for Public Transport Users*, p22-23.



	bonus. <sup>27</sup>
<b>Canada</b>	Tax credit of 15% for the cost of public transport passes issued for a minimum of 5 consecutive days. Eligible to claim for partners and children less than 19 years. <sup>28</sup>
<b>Ireland</b>	Salary sacrifice (tax free) and cash bonus (taxed) arrangements available for public transport expenses. Employees can save up to 47% on travel expenses; employers can save up to 10.75% on the Irish equivalent of payroll tax. <sup>29</sup>
<b>United Kingdom</b>	Fringe benefits tax rate is lower for cars with lower CO <sub>2</sub> emissions and cars that can run on alternative fuels. <sup>30</sup>

3. *Apply eligibility criteria to statutory formula claims based on commuters' access to a viable public transport option.*

This option would reduce the number of employees utilising the FBT regime primarily as a mechanism to reduce their taxable income while providing the added benefit of a private vehicle. It would aim to ensure only those who actually require a vehicle would be eligible for the benefit. This option recognises the added value of flexible business travel for those who legitimately require a business vehicle. However, this option would be extremely difficult to administer and require the development of an agreed national standard system of analysis to determine the viability of each local public transport system.

4. *Remove the statutory formula method for calculating car fringe benefits.*

This option would also aim to discourage the use of car fringe benefits as a means to reduce taxable income with the added benefit of a private vehicle. It would do this by increasing the compliance burden to obtain the benefit - with only the operating cost method available. As the systems are already in place to administer this method from an ATO perspective, it would not have the added costs of adopting an entirely new scheme. However, it does not remove the horizontal inequities between public and private transport.

5. *Requirements for salary packaging to be available only to low-emissions and/or locally produced vehicles.*

Arguably, this option would reduce the gap between the practical application of the FBT regime to date and the regime's original objectives. Furthermore, by tying the regime directly to carbon abatement through a tax incentive to purchase low emission vehicles, this option would assist the attainment of the federal government's environmental goals. However, in isolation, it does little to reduce the problem of urban congestion and would need to be coupled with one of the other options outlined. This option would potentially be cost neutral as it only determines the types of vehicles eligible under the scheme without directly impacting the number of people who use it.

6. *Abolish the FBT exemption for salary packaged cars to promote a level playing field for all transport modes.*

This option would remove any horizontal inequities among transport modes and release \$1.7 billion per year in Commonwealth funding that could be allocated, through Infrastructure Australia, to the states for the delivery of critical transport infrastructure.

<sup>28</sup> Government of Canada: *Tax credit for public transit passes*, retrieved 5 October 2010 from [http://www.transitpass.ca/about\\_e.asp](http://www.transitpass.ca/about_e.asp).

<sup>29</sup> Public Service Information for Ireland, Citizens Information: *Public transport commuter tickets and tax*, retrieved 5 October 2010 from <http://www.citizensinformation.ie/categories/travel-and-recreation/public-transport/public-transport-commuter-tickets-and-tax>.

<sup>30</sup> United Kingdom Citizens Advice Bureau: *Benefits in kind*, retrieved 5 October 2010 from [http://www.adviceguide.org.uk/index/your\\_money/tax/benefits\\_in\\_kind.htm](http://www.adviceguide.org.uk/index/your_money/tax/benefits_in_kind.htm).

Such a policy may best be implemented gradually, due to the negative impact on the operational costs of businesses that require their employees to have vehicles. Simultaneously, the capacity and attractiveness of public transport services would also need to be gradually enhanced in order to respond to the expected shift in demand between modes.

The key objective in adopting any of the outlined options is to create, or take steps towards the eventual creation of, a level playing field for private and public transport. For the Federal budget, the cost of tax incentives for public transport could be offset by a reduction in the \$1.7 billion currently spent on car fringe benefits. When considering the incorporation of public transport tax incentives, the federal government must also acknowledge that numerous policy areas such as health, the environment and the economy can also benefit through the promotion of an efficient, sustainable transport system.

## TTF position

The treatment of transport under current FBT provisions is in urgent need of reform. It encourages urban congestion, social disadvantage and environmental degradation, and costs the Commonwealth approximately \$1.7 billion per year. Each of these factors provides a compelling argument for reform of the FBT regime. Together they provide an immediate call to action.

The current regime sends a mixed message to the community whereby the government actively promotes public transport use, healthy lifestyles, a sustainable environment and economic prudence at the same time as it administers an FBT regime that encourages the very opposite. The federal tax system must work to achieve the primary policy objectives of Australian governments. If the government were genuine about achieving its goals it would amend the FBT regime to include more incentives for Australians to break the habit of car dependency.

TTF believes the most efficient way to achieve this is to adopt option 6 - the abolition of FBT exemptions on salary packaged cars. The case for mode and distance neutrality for transport in the tax system is overwhelming and removing this FBT benefit would be both simple to enact and cost effective. Furthermore, it would unlock a significant revenue stream for the ongoing provision of public transport infrastructure.

Noting the impact of such a measure on many industries currently reliant on passenger cars, TTF supports a staged approach to allow the necessary adjustments to current work practices to be made and to allow for greater investment in public transport services.



**TTF**   
**AUSTRALIA**  
Tourism & Transport Forum

TOURISM & TRANSPORT FORUM (TTF)  
8<sup>th</sup> FLOOR  
8-10 LOFTUS STREET  
SYDNEY NSW 2000  
T | +61 2 9240 2000  
F | +61 2 9240 2020  
[www.ttf.org.au](http://www.ttf.org.au)