



## Pay-roll Tax

### Fringe Benefits

*Pay-roll Tax Assessment Act 2002*

**As at 1 July 2012**

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#### Introduction

Fringe benefits, as defined in the *Fringe Benefits Tax Assessment Act 1986* ("FBTA Act"), have been included within the definition of wages in the *Pay-roll Tax Assessment Act 2002* ("the Act") since 1 July 1997. With effect **from 1 January 2002**, the taxable value for pay-roll tax purposes was changed to the value after applying two gross-up methods.

With effect from **1 July 2009**, further changes apply to the manner in which fringe benefits are accounted for in relation to pay-roll tax.

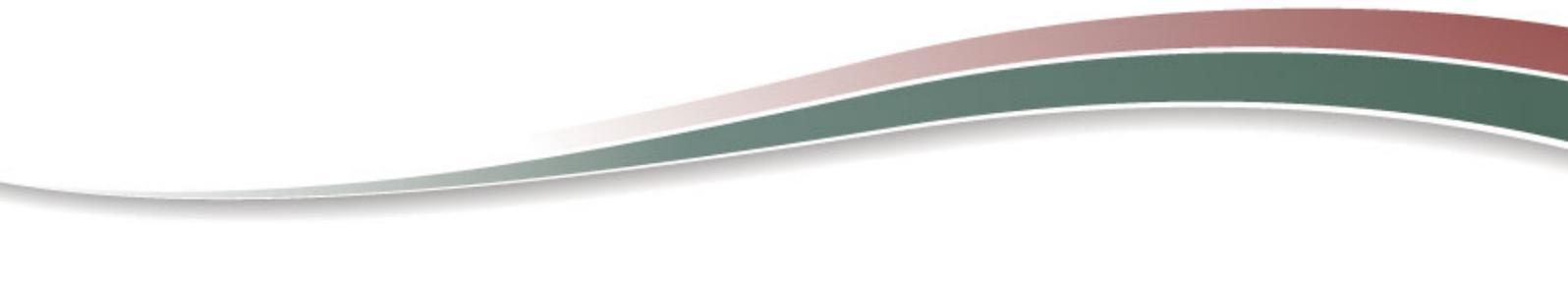
In summary, these changes are:

- A living away from home allowance is now included within the fringe benefits tax base for pay-roll tax purposes;
- The otherwise deductible rule is no longer added back to the pay-roll tax calculation; and
- Only the type 2 gross-up rate is applicable for pay-roll tax purposes.

#### What are fringe benefits?

A fringe benefit under the FBTA Act is a benefit which is provided by the employer, an associate of the employer, or by a third party (under an arrangement with the employer) and which is supplementary to the employee's regular remuneration. The provision of a benefit can be made either to an employee or to an associate of an employee.

#### Benefits covered by the FBT legislation include:

- car fringe benefits
  - loan fringe benefits
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- debt waiver fringe benefits
- expense payment fringe benefits
- housing fringe benefits
- living away from home allowance fringe benefits
- airline transport fringe benefits
- board (including meal) fringe benefits
- property fringe benefits
- entertainment fringe benefits
- car parking fringe benefits
- tax exempt body fringe benefits
- residual fringe benefits
- the provision of a share or option to an employee that is not an Employee Share Scheme (“ESS”) benefit

For more information please refer to the [Employee Share Acquisitions](#) fact sheet.

Queries concerning the application of the FBTA Act to particular benefits should be addressed to the Australian Taxation Office (ATO).

## Fringe benefits liable to pay-roll tax from 1 July 1997

The ATO’s fringe benefits tax base has not been adopted in total for pay-roll tax purposes, and there are important differences for periods ending 30 June 2009, and for periods commencing 1 July 2009, which employers must take into account when preparing pay-roll tax returns.

### ▪ Living away from home allowance

A living away from home allowance (“LAFHA”) is defined as a fringe benefit for the FBTA Act purposes. However, for pay-roll tax purposes in the periods **ending 30 June 2009**, no distinction was made between concessional or non-concessional LAFHA, and the total amount of LAFHA paid was not considered to be a fringe benefit, but as an allowance and therefore taxable in full as wages.

**From 1 July 2009** only that part of a LAFHA that is a taxable fringe benefit is included for pay-roll tax purposes. If a LAFHA has a nil value for FBT purposes, it will also have a nil value for pay-roll tax purposes.

### ▪ Otherwise deductible rule for non work-related benefits

Under the FBTA Act, the ‘*otherwise deductible rule*’ operates to reduce the taxable value of a benefit provided to an employee by the amount of the income tax deduction that the employee would have been entitled to claim, had the employee borne the cost of providing the benefit.

For pay-roll tax purposes, **for periods up to 30 June 2009**, the value of a fringe benefit includes the grossed-up amount of benefits paid to employees that may not have ordinarily been a fringe benefit as a result of the operation of the otherwise deductible rule. That is, the full value of the benefit is grossed-up for pay-roll tax purposes, ignoring the otherwise deductible rule, and added to the wages amount for determining the amount on which pay-roll tax is payable.

**For periods from 1 July 2009**, the otherwise deductible rule is not added back when calculating the value of fringe benefits for pay-roll tax purposes.

#### ▪ Remote area fringe benefit exemptions

Remote area fringe benefits, as defined in the FBT Act, are exempt benefits for FBT purposes when they are "fly in fly out" transport and accommodation, and have a concessional treatment for housing, residential fuel and holiday travel provided to employees in remote areas.

For pay-roll tax purposes, "fly in fly out" arrangements are not included as wages and full exemptions are provided to the following remote area fringe benefit payments:

- residential fuel (i.e. electricity and gas)
- housing assistance
- domestic water
- holiday transport \*
- education costs \*\*

\* Limited to the cost of the return economy airfare to the capital city of their work place, when the employee does not travel back to their hometown or that capital city.

\*\* Limited to the educational costs of an employee's dependant that is required to live away from home in order to attend on a full-time basis, a primary, secondary or tertiary institution that is not within a reasonable distance of the remote place at which the employee performs services.

### Declaration of fringe benefit amounts for pay-roll tax purposes

Employers are required to declare in their pay-roll tax returns, the **actual taxable value** of fringe benefits provided in each return period (see examples 1 and 2).

However, the Act allows for an employer to elect, on the appropriate form, to return fringe benefits on the **estimated method**. It is "estimated" in that it is initially based on the value of the actual fringe benefits as shown on the FBT return for the FBT year immediately preceding the current financial year.

Using the estimated method, employers registered for monthly return lodgement declare one twelfth of the adjusted value of Western Australian fringe benefits provided in each monthly pay-roll tax return, from July to May. **A fringe benefits reconciliation is required in the June pay-roll tax return of each financial year.** The June pay-roll tax return should include the difference between the adjusted value of Western Australian fringe benefits provided in the FBT year ending 31 March immediately preceding the June return, **and** the total amount of fringe benefits included in the pay-roll tax returns for each of the 11 preceding months.

Example 3 below shows how to calculate the monthly amount to be declared in July to May returns as well as the June return reconciliation amount. In addition, a pay-roll tax [Fringe Benefits Reconciliation Worksheet](#) has been prepared to assist employers and is reproduced at Appendix 1.

**Note:** An election to use the estimated method on returns can only be made where the employer has been paying fringe benefits tax on Western Australian benefits to the ATO for at least fifteen months prior to the commencement of the financial year.

The election must be lodged with the Commissioner no later than the due date of the first pay-roll tax return of the first financial year in which the estimated basis is to be used.

Employers registered for pay-roll tax on an **annual** basis simply declare the adjusted value of WA fringe benefits for the FBT year that ends immediately preceding the June return. A worksheet must be prepared and retained for each fringe benefits pay-roll tax reconciliation so that it is available for audit purposes.

It is important to note the following:

- all returns for a financial year must be made on the same basis i.e. either all estimated or all actual;
- change from actual to estimated value method requires lodgement of an election form;
- change from estimated to actual value method or vice versa, can only occur with effect from 1 July of each year;
- change from estimated to actual value method requires notification in writing to the Commissioner;
- change from estimated to actual value method requires completion of an adjustment calculation to account for the change, for inclusion in the final return under the estimated method - refer to heading below titled “Estimated method – final return adjustment” and examples 4 and 5.

## Example 1 - actual method - years 2009/10 and later

### ABC Pty Ltd lodges pay-roll tax returns on an annual basis.

#### Calculation of taxable value of fringe benefits July 2011 to June 2012

Fringe benefits for year ended 30 June 2012	Type 1	Type 2
WA fringe benefits before gross-up	50,000	100,000
Less: additional remote area exemption	- Nil	5,000
Before gross-up	<u>50,000</u>	<u>95,000</u>
Total of type 1 and type 2 benefits		145,000
Grossed-up at type 2 rate – 1.8692		<u>271,034</u>

The amount of \$271,034 is the pay-roll tax taxable value.

Note that the gross up rate for type1 benefits has been ignored, and all benefits have been grossed up using the type 2 benefit rate.

## Example 2 - actual method – year 2008/09

### ABC Pty Ltd lodges pay-roll tax returns on an annual basis.

ABC Pty Ltd has \$150,000 of WA fringe benefits (\$50,000 type 1 benefits and \$100,000 type 2 benefits) during the 2008/09 financial year. The rates of gross-up for any year are determined by the ATO.

#### Calculation of taxable value of fringe benefits July 2008 to June 2009

Fringe Benefits for year ended 30 June 2009	Type 1	Type 2
WA fringe benefits before gross-up	50,000	100,000
Less: living away from home allowances	- NIL	- 10,000
Less: additional remote area exemption	- NIL	- 5,000
<b>SUB TOTALS</b>	<u>50,000</u>	<u>85,000</u>
Plus: otherwise deductible rule adjustment	<u>+ NIL</u>	<u>+ 5,000</u>
Before gross-up	<u>50,000</u>	<u>90,000</u>
To gross-up each type	x 2.0647	x 1.8692
Grossed-up	103,235	<u>168,228</u>
Add type 1 & type 2 grossed-up fringe benefits		271,463

The amount of \$271,463 is the pay-roll tax taxable value.

Note that with a type 1 fringe benefit, the employer can claim a GST input tax credit for providing the benefit. A type 2 fringe benefit does not attract the input tax credit. Type 1 and type 2 benefits are as per the FBT return that is completed by taxpayers for the ATO.

### Example 3 - estimated method - calculation of monthly declarations and June reconciliation adjustment – years 2009/10 and later

DEF Pty Ltd is registered on a monthly basis and has elected to use the estimated method for calculating the fringe benefits amount to be declared in pay-roll tax returns in Western Australia with effect from 1 July 2011. DEF Pty Ltd provided WA fringe benefits of \$120,000 (\$50,000 type 1 benefits and \$70,000 type 2 benefits) in the FBT year ending 31 March 2011.

For the year ending 31 March 2012, DEF Pty Ltd provided WA fringe benefits of \$190,000 (\$60,000 type 1 benefits and \$130,000 type 2 benefits) in the FBT year.

#### DEF Pty Ltd Calculation of monthly declarations July 2011 to May 2012

	Type 1	Type 2
Fringe benefits taxable value 31 Mar 2011	50,000	70,000
Less: additional remote area exemption		- 5,000
<b>SUB TOTALS</b>	<b>50,000</b>	<b>65,000</b>
Total of type 1 and type 2 benefits		115,000
Grossed-up at type 2 rate (1.8692)		214,958

The **monthly amount** for declaration on pay-roll tax returns for July 2011 to May 2012 is  $\frac{1}{12}$  of \$214,958 = \$17,913.

#### June 2012 reconciliation adjustment

	Type 1	Type 2
Fringe benefits taxable value 31 Mar 2012	60,000	130,000
Less: additional remote area exemption		- 5,000
<b>SUB TOTALS</b>	<b>60,000</b>	<b>125,000</b>
Total of type 1 and type 2 benefits		185,000
Grossed-up at type 2 rate (1.8692)		345,802
<b>Subtract:</b> amount declared in returns July 2011 to May 2012 (\$17,913 x 11)		197,043
<b>Equals:</b> amount to be declared in June 2012 return		148,759

The amount of \$148,759 should be declared in the June 2012 pay-roll tax return.

### Calculation of monthly declarations July 2012 to May 2013

	Type 1	Type 2
Fringe benefits taxable value 31 Mar 2012	60,000	130,000
Less: additional remote area exemption		- 5,000
SUB TOTALS	60,000	125,000
Total of type 1 and type 2 benefits		185,000
Grossed-up at type 2 rate (1.8692)		345,802

The **monthly amount** for declaration on pay-roll tax returns for July 2012 to May 2013 is  $\frac{1}{12}$  of \$345,802, = \$28,816.

### Estimated method – final return adjustment

Where an employer has been declaring fringe benefits under the estimated method and:

- the liability to pay-roll tax is to cease; or
- a change to the actual method is to occur;

an adjustment calculation **must** be undertaken to identify the amount to be included in the final return. This adjustment accounts for the difference between pay-roll tax paid under the estimated method, and the pay-roll tax that should have been paid on the actual value of the fringe benefits provided.

The formula for this adjustment is the difference between:

(a) the total of

- WA fringe benefits for the FBT year that ends in the financial year in which the final pay-roll tax return falls; and
- Actual WA fringe benefits for April, May and June of the financial year (if any);

and

(b) the total of

- $\frac{1}{4}$  of the WA fringe benefits for the FBT year that ends in the first financial year in which the estimated value method was last elected to be used; and
- The total of WA fringe benefits included in returns for the financial year.

### Example 4 - estimated method - final return - where employer ceases between April and June

• employer ceased	30 June 2012
• first year on estimated method	2009/10
• adjusted WA fringe benefits for FBT year 31 March 2010	\$24,000
• adjusted WA fringe benefits for FBT year 31 March 2011	\$48,000
• adjusted WA fringe benefits for FBT year 31 March 2012	\$72,000
• actual WA fringe benefits April 2012 to June 2012	\$20,000

	\$	\$
WA fringe benefits for FBT year 31 March 2012	72,000	
WA fringe benefits for April, May and June 2012	20,000	92,000
Less:		
¼ WA fringe benefits for FBT year 31 March 2010 (¼ of \$24,000)	6,000	
WA fringe benefits included in pay-roll tax returns July 2011 to May 2012 (11 x 1/12 x \$48,000)	44,000	-50,000
Amount to be declared in final return i.e. June 2012 return		42,000

### Example 5 - estimated method - final return - where employer ceases between July and March

• employer ceased	31 August 2011
• first year on estimated method	2009//2010
• adjusted WA fringe benefits for FBT year 31 March 2010	\$24,000
• adjusted WA fringe benefits for FBT year 31 March 2011	\$72,000
• actual WA fringe benefits April 2011 to August 2011	\$40,000

	\$	\$
WA fringe benefits for FBT year that ends in the financial year in which the final pay-roll tax return falls (i.e. for period 1 April 2011 to 31 August 2011)	40,000	
WA fringe benefits April, May and June of the FBT year 1 April 2011 to 31 March 2012	Nil	40,000
Less:		
¼ WA fringe benefits for FBT year 31 March 2010 (¼ of \$24,000)	6,000	
WA fringe benefits included in pay-roll tax return July 2011 (1/12 x \$72,000)	6,000	- 12,000
Amount to be declared in final return i.e. August 2011 return		28,000

A final return adjustment worksheet is reproduced at Appendix 2 of this fact sheet to assist employers with their calculations.

Where a final return adjustment is required, employers must prepare and retain a worksheet so that it is available for audit purposes.

## Australian Taxation Office rulings

In order to follow as closely as possible the effect of the FBT legislation, the Commissioner of State Revenue will generally adopt all rulings issued by the ATO in respect of fringe benefits that are in force from 1 July 1997. The exception to this rule is in respect of the differences between the FBT and pay-roll tax bases outlined under the heading "*Fringe benefits liable to pay-roll tax from 1 July 1997*" as above.

## Australian Taxation Office assessments

Assessments or amended assessments issued by the ATO, in respect of FBT, are to be immediately advised to the Office of State Revenue in order that the necessary adjustments to pay-roll tax assessments can be undertaken.

## Record keeping

Employers are required to comply with the following record keeping responsibilities:

- make and retain records to support the calculation of the value of fringe benefits included or to be included in payroll tax returns;
- retain other documents and records used for the purposes of that calculation;
- retain a record of the adjusted value of WA fringe benefits for the FBT year that ends in the financial year in which the estimated method was first used, until five years after ceasing to declare pay-roll tax on fringe benefits under the estimated method; and
- in all other cases records must be kept for five years.

## Other benefits liable to pay-roll tax (specified taxable benefits)

A few benefits, which are not fringe benefits under the FBTA Act, have been prescribed as liable for pay-roll tax. Those benefits, called specified taxable benefits, are contributions by an employer to:

- an industry redundancy fund; and
- a portable long service leave fund

The liability of **specified taxable benefits** is outlined in the [Wages Definition](#) fact sheet.

Pay-roll tax declarations of **specified taxable benefits** are required to be made on the basis of the actual benefit provided to, or in relation to, an employee during a return period. Accordingly, these benefits should not be included in calculations that determine the actual or estimated amount to be included for fringe benefits, but are to be included on a pay-roll tax return as ordinary wages.

**Note:** The information contained in this FACT SHEET is issued for guidance purposes only. It is not an exhaustive explanation of the provisions of the *Pay-roll Tax Assessment Act 2002* and reference should be made to the Act for complete details.

## Contact the Office of State Revenue

<b>Office</b>	Office of State Revenue Plaza Level 200 St Georges Terrace PERTH WA 6000	<b>Telephone</b>	(08) 9262 1300 1300 368 364 (WA country STD callers only – local call charge)
<b>Office hours</b>	8:00 am – 5:00 pm Monday to Friday	<b>Facsimile</b>	(08) 9226 0841
<b>Postal</b>	Office of State Revenue GPO Box T1600 PERTH WA 6845	<b>Web Enquiry</b>	<a href="http://www.osr.wa.gov.au/PayrollEnquiry">www.osr.wa.gov.au/PayrollEnquiry</a>
		<b>Website</b>	<a href="http://www.osr.wa.gov.au">www.osr.wa.gov.au</a>

**Appendix 1: Pay-roll tax fringe benefits reconciliation worksheet – Years 2009/10 and later**

**Estimated method - calculation of monthly declaration**

	Type 1(\$)	Type 2(\$)
WA fringe benefits pre grossed-up values from FBT return of 31 March 2011		
<b>Less:</b> additional remote area exemption	- _____	- _____
Before gross-up	= _____	= _____
Total of type 1 & type 2 benefits		= _____
Grossed-up at type 2 rate – 1.8692		= _____
<sup>1</sup> /12 of pay-roll tax taxable value		_____ ÷12
Amount to be declared in pay-roll tax monthly returns for July 2011 to May 2012		<b>A</b> _____

**June reconciliation amount 2009/10 (and later)**

	Type 1(\$)	Type 2(\$)
WA fringe benefits pre grossed-up values from FBT return at 31 March 2012		
<b>Less:</b> additional remote area exemption	- _____	- _____
Before gross-up	= _____	= _____
Total of type 1 & type 2 benefits		_____
Grossed-up at type 2 rate – 1.8692		= _____
Less: Amount declared in returns July 2011 to May 2012 (11 x amount shown at <b>A</b> above)		_____
Amount to be declared in June 2012		_____

**Important Note:** This worksheet or one in a similar format must be prepared and retained for audit purposes. The [Fringe Benefits Reconciliation Worksheet](#) can be obtained from the Office of State Revenue website.

**Pay-roll tax fringe benefits reconciliation worksheet – Year 2008/09**

**Estimated method - calculation of monthly declaration for 2008/09**

	<b>Type 1(\$)</b>		<b>Type 2(\$)</b>
WA fringe benefits pre grossed-up values from FBT return at 31 March 2008	_____		_____
<b>Less:</b> living away from home allowances	-		-
<b>Less:</b> additional remote area exemption	-		-
SUB TOTALS	=		=
<b>Plus:</b> otherwise deductible rule adjustment	+		+
Before gross-up	=		=
To gross-up each type	x	2.0647	x
Grossed-up	=		=
Add type 1 & type 2 grossed-up			
<sup>1</sup> /12 of pay-roll tax taxable value			÷12
Amount to be declared in pay-roll tax monthly returns for July 2008 to May 2009			<b>A</b>

**June reconciliation amount 2008/09**

	<b>Type 1(\$)</b>		<b>Type 2(\$)</b>
WA fringe benefits pre grossed-up values from FBT return at 31 March 2009	_____		_____
<b>Less:</b> living away from home allowances	-		-
<b>Less:</b> additional remote area exemption	-		-
SUB TOTALS	=		=
<b>Plus:</b> otherwise deductible rule adjustment	+		+
Before gross-up	=		=
To gross-up each type	x	2.0647	x
Grossed-up	=		=
Add type 1 & type 2 grossed-up			
Less: Amount declared in returns July 2008 to May 2009 (11 x amount shown at <b>A</b> above)			-
Amount to be declared in June 2009			_____

**Important Note: This worksheet or one in a similar format must be prepared and retained for audit purposes.**

**Appendix 2: Pay-roll tax fringe benefits final return**

**Adjustment worksheet – Estimated method**

**IMPORTANT**

An employer who has been declaring fringe benefits under the estimated method and:

- the liability to pay-roll tax is to cease; or
- a change to the actual method is to occur,

must complete this worksheet and declare the resultant adjustment in their final return under the estimated method.

Employers who cease on the estimated method in the months of April, May or June should refer to Example 3. Employers who cease on the estimated method in the months between July and March should refer to Example 4.

	\$	\$
i. Adjusted WA fringe benefits for the FBT year that ends in the financial year in which the final pay-roll tax return falls i.e. 31 March .....	-----	
ii. Actual adjusted WA fringe benefits for April, May & June immediately following the year specified in (i) above (if any)	=====	=====
Sub total	-----	-----
Less:		
i. ¼ of adjusted WA fringe benefits for the FBT year that ends in the financial year in which the estimated method was used first i.e. 31 March		
ii. Fringe benefits declared in pay-roll tax returns for the financial year of the final return	-----	-----
Amount to be declared in final return		=====

**Important Note: This worksheet or one in a similar format must be prepared and retained for audit purposes.**