



**Australian Government**

**Department of Families, Community Services  
and Indigenous Affairs**

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Mr Tony Smith MP  
Chairman  
Joint Standing Committee on Public Accounts and Audit  
Parliament House  
Canberra ACT 2600

Dear Mr Smith

I am writing to make a submission to the Joint Committee of Public Accounts and Audit inquiry reviewing a range of taxation issues within Australia.

I am making a submission in relation to Part B of the terms of reference:

- The Committee shall examine the application of the fringe benefit tax regime, including any “double taxation” consequences arising from the intersection of fringe benefits tax and Family Tax Benefits.

The Australian Government recognises that families today have a diversity of parenting arrangements and responsibilities and provides support to individual families as far as possible through the Family Tax Benefit program. This program consists of two parts, Part A and Part B.

Part A is designed to help families with the costs of children. Payment to a family is assessed on the combined income of the family, and is paid in respect of each child.

Part B provides extra help for those families with one main income. The payment is based on the age of the youngest child, and is assessed on the income of a family's lower income earner.

Family Tax Benefit is designed to support individual families with the day-to-day costs of their children. The Australian Government's intention is to direct help to those families most in need and use of taxable income is considered to be a fair, objective and equitable way of determining a family's relative financial need.

Eligible families receive (on average) a payment of \$7,700 per financial year of Family Tax Benefit. The Government's aim is to ensure that families in comparable circumstances receive an equal amount of Family Tax Benefit in respect of any tax year.

To ensure Family Tax Benefit is assessed based on need, some types of income, including adjusted fringe benefits, are added to taxable income and included in the assessment of Family Tax Benefit entitlement. This ensures that families who have received part of their income in a non-taxable form are treated similarly to other families with a comparable gross income. If fringe benefits were not included, some families would receive greater financial benefit than others, even though they have comparable resources available to them.

### ***Reportable Fringe Benefits***

A fringe benefit is not included as salary for the employee, and they do not pay income tax on that amount. Instead, the employer pays any fringe benefits tax required. While the employee does not pay tax on the fringe benefits, they are included when applying an income test for various government rebates, deductions and entitlements.

The calculation for adjusted fringe benefits for Family Tax Benefit purposes is based on the value of reportable fringe benefits recorded on the employee's payment summary. Any fringe benefits which are not reportable (such as certain benefits received by ministers of religion exempt under s.57 of the *Fringe Benefits Tax Assessment Act 1986*) are not included.

The reportable fringe benefits amount recorded on an employee's payment summary reflects the gross salary that would have to be earned to purchase those benefits from after tax dollars (equivalent to taxable income), and an employer includes this amount on the employee's group certificate. It is calculated using the following formula:

- Reportable Fringe Benefit = Total taxable value of fringe benefit divided by (1 - FBT rate<sup>1</sup>)
- Example: John has received fringe benefits from his employers. The value of the fringe benefit is \$5,000.  
John's reportable fringe benefits =  $\$5,000 / (1 - 0.485) = \$9,708.74$

### ***Adjusted Fringe Benefits***

Family Tax Benefit entitlements are calculated on adjusted taxable income, which consists of:

- the SUM of the following amounts for that year:
  - taxable income,
  - the value of any adjusted fringe benefits,
  - target foreign income,
  - net rental property loss, and
  - tax free pension or benefit,
- LESS the amount of deductible child maintenance expenditure.

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<sup>1</sup> Equivalent to the top marginal tax rate plus the Medicare levy, this is currently 0.485 or 51.5 percent.

For Family Tax Benefit purposes the reportable fringe benefits figure is adjusted. The adjusted fringe benefit is determined using the following formula:

- Adjusted Fringe Benefits = Reportable fringe benefit x (1 - FBT rate)
- Example: John has received Reportable fringe benefits from his employers. The amount on his payment summary is \$9,708.74.  
John's adjusted fringe benefits = \$9,708.74 x (1 - 0.485) = \$5,000

Calculating the adjusted fringe benefits amount has the effect of subtracting the gross-up factor from the employee's reportable fringe benefits total. By doing this only the cash or market value of the employee's fringe benefits is assessed as part of the FTB income test.

The use of an adjusted fringe benefit amount rather than the reportable fringe benefit amount continues the treatment of fringe benefits prior to the introduction of the *A New Tax System* reforms in 2000.

If you require any further information please contact Alanna Foster, a/g Branch Head Family Payments Branch, on (02) 6244 5437.

Yours sincerely

*(signed)*

Roger Barson  
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Social Policy Group  
Department of Families, Community Services and Indigenous Affairs

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