
Private use of exempt car and residual benefits – ATO draft guideline

20 December 2017

In brief

On 18 December 2017, the Australian Taxation Office (**ATO**) released draft Practical Compliance Guideline PCG 2017/D14 *Exempt car and residual benefits: compliance approach to determining private use of vehicles* (**PCG 2017/D14**).

This draft Practical Compliance Guideline (**PCG**) provides an optional practical compliance approach that employers can adopt to determine if private travel by employees in exempt vehicles is eligible for a fringe benefits tax (**FBT**) exemption.

Key observations of the draft PCG include:

- PCG 2017/D14 provides three key, measurable criteria in determining whether the private use of an exempt vehicle is considered minor, infrequent and irregular.
- Employers that apply the practical compliance approach in the draft PCG are eligible for reduced record keeping requirements.
- Employers should consider their eligibility to use the practical compliance approach in PCG 2017/D14 for the FBT year ended 31 March 2018.

In detail

Broadly, minor, infrequent and irregular private travel by an employee in an exempt vehicle will be exempt from FBT. Exempt vehicles include some single cab and dual cab utes, panel vans and some four-wheel drive vehicles.

The draft PCG was developed in response to feedback received by the ATO from businesses and industry that claiming the FBT exemptions for exempt vehicles created a compliance burden as employers were required to assess whether employee travel was minor, infrequent and irregular.

The draft PCG provides increased certainty and transparency for employers that claim FBT exemptions for minor, infrequent and irregular private use of exempt vehicles by employees.

Practical compliance approach

The draft PCG provides an approach that employers may elect to apply to exempt private travel in exempt vehicles if they meet the following criteria:

- a) an eligible vehicle is provided to a current employee;
- b) the vehicle is provided to the employee to perform their work duties;
- c) the employer takes all reasonable steps to limit private use of the vehicle and have measures in place to monitor such use;
- d) the vehicle has no non-business accessories;
- e) the vehicle had a GST-inclusive value less than the luxury car tax threshold at the time the vehicle was acquired;
- f) the vehicle is not provided as part of a salary packaging arrangement and the employee cannot elect to receive additional remuneration in lieu of the use of the vehicle; and
- g) the employee uses the vehicle to travel:
 - i. between their home and their place of work and any diversion adds no more than two kilometres to the ordinary length of that trip;
 - ii. no more than 750 kilometres in total for each FBT year for multiple journeys taken for a wholly private purpose; and
 - iii. no single, return journey for a wholly private purpose exceeds 200 kilometres.

Where the approach under the PCG is adopted, an employer does not need to keep records about an employee's use of an exempt vehicle. However, employers will need to ensure that they meet each of the criteria listed in the PCG, meaning a monitored policy should be in place to ensure employees do not travel more than 750 kilometres for private journeys each FBT year, and that no single, return private journey in the FBT year exceeds 200 kilometres.

Examples

PCG 2017/D14 uses worked examples to illustrate when private use of an exempt vehicle will be eligible for exemption under the PCG. Examples include:

Eligible minor, infrequent and irregular private travel	Ineligible private travel
The employee usually stops at the newsagent to pick up a newspaper on their way to work. The diversion adds less than two kilometres to the total journey from home to work.	During the football season the employee attends weekly football training after work. The diversion adds more than two kilometres to the total journey from work to home.
On 10 occasions during the FBT year, the employee has also transported their niece to school in the van during the employee's journey from home to work. The journeys from home to work generally do not exceed 20 kilometres.	The employee's private use of the van during the year was limited to moving residences and travel from home to the new residence (300 kilometres within a single return trip).
The employee's private use of the van during the year was limited to taking domestic rubbish to the tip (100 kilometres return trip), moving residences and travel from home to the new residence three times (200 kilometres travelled in total).	

The takeaway

PCG 2017/D14 may be useful for employers that provide exempt vehicles to employees which may undertake limited private travel, such as dropping children off at school on the way to work, or picking up some milk on the way home.

Employers should note that while no specific record keeping is required under the practical compliance approach to substantiate the minor, infrequent and irregular private travel, employers need to be comfortable they are eligible to apply the PCG. If you are considering applying the PCG approach to your 2018 FBT return, we recommend you check your motor vehicle policy to make sure your company's policy is in line with the ATO's guidance on minor, infrequent and irregular travel and that the policy is sufficiently monitored and enforced.

Comments can be made to the ATO on draft PCG 2017/D14 until 9 February 2018. If you have any comments on the draft ruling, your local employment tax team member would be happy to discuss.

Let's talk

For a deeper discussion of how these issues might affect your business, please contact:

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