

## 2015 – 2016 Federal Budget Update For Not-For-Profits

On 12 May 2015 the Federal Budget was released.

This newsletter highlights the impact of the 2016 Federal Budget on organisations in the Australian Not-For-Profit sector from a taxation perspective.

### **Announced changes of a cap on Meal Entertainment and Entertainment Facility Leasing Expenses**

The Federal Government has announced that from 1 April 2016 there will be a ‘*separate single grossed-up cap of \$5,000*’ for salary sacrificed Meal Entertainment (ME) **AND** Entertainment Facility Leasing (EFL) expenses that are salary sacrificed.

Over the forward estimates period this announced new cap is projected by Treasury to save the Federal Budget \$295 Million.

This means for the 2017 FBT year (and onwards) there will be two caps that need to be managed by Public Benevolent Institutions (PBIs) / Health Promotion Charities (HPCs) and FBT Rebatable Employers.

These two caps are the general exemption cap (that was again not touched in the budget) with a Grossed Up value of \$31,177 for PBIs and HPCs; and now the new \$5,000 Meal Entertainment and EFL cap.

In summary the new exemption cap limits for PBIs and HPCs are outlined below:

Grossed Up FBT Exemption Caps – PBIs / HPCs		
	FBT YEAR	
	2015-16	2016-17
General Exemption Cap	\$31,177	\$31,177
Meal Entertainment Cap	UNLIMITED	n/a
Entertainment Facility Leasing Cap	UNLIMITED	n/a
Combined ME / EFL Cap	n/a	<b>\$5,000</b>

It is important to note the new combined ME / EFL Cap of \$5,000 is a single “grossed up total” and not representative of the “dollar” amount an employee salary sacrifices to access the benefits.

### **How is the value of Meal Entertainment and Entertainment Facility Leasing Expenses calculated for FBT purposes?**

Due to the introduction of the new ME & EFL cap, not-for-profit organisations will need to understand how to calculate the FBT taxable value of ME & EFL benefits in order to manage the new cap effectively.

This means employers will need to understand how to classify Type 1 (GST) benefits and Type 2 (GST Free) benefits so the amounts can be grossed up correctly in order to not breach the new \$5,000 cap. Subject to legislative changes, ME & EFL costs incurred overseas will not have GST in the price and will fall under the Type 2 classification. ME and EFL incurred in Australia will *mostly* be Type 1 Benefits.

Assuming the current FBT law does not change with respect to the calculation of the taxable value of a ME or EFL benefit, employers are able to elect to use what is called the 50/50 split method. This means the taxable value of the benefit is equal to 50% of the value of the expenses incurred by the employer.

Should this methodology remain (and be available to not-for-profit organisations), the following table outlines the theoretical dollar limits an employee may salary sacrifice to keep under the \$5,000 grossed up cap. Until legislation is released, it is

unclear how the Government intends to implement the change and the final method chosen will impact on the GST treatment of the benefits for classification as either Type 1 or Type 2 benefits.

Taxable Value of ME & EFL benefits using 50/50 split method					
	FBT YEAR 2015-16				
	Sal. Sac. Amount	50% Taxable Value	Gross Up Rate	Grossed Up Total	RFBA
Type 1 Benefits Gross Up Factor	\$4,659.18	\$2,329.59	2.1463	\$5,000	\$4,567.86
Type 2 Benefits Gross Up Factor	\$5,099.96	\$2,549.98	1.9608	\$5,000	\$5,000
RFBA Gross Up Factor			1.9608		

However, if the current FBT law **does** change with respect to the calculation of the taxable value of a ME or EFL benefit, and employers are no longer able to elect to use the 50/50 split method, the following table outlines how the cap will be met.

Taxable Value of ME & EFL benefits using 50/50 split method					
	FBT YEAR 2015-16				
	Sal. Sac. Amount	50% Taxable Value	Gross Up Rate	Grossed Up Total	RFBA
Type 1 Benefits Gross Up Factor	\$2,329.59	N/A	2.1463	\$5,000	\$4,567.86
Type 2 Benefits Gross Up Factor	\$2,549.98	N/A	1.9608	\$5,000	\$5,000
RFBA Gross Up Factor			1.9608		

Again, until legislation is released, it is unclear how the Government intends to implement the change and the final drafting method chosen will impact on the GST treatment of the benefits for classification as Type 1 or Type 2.

In summary, this means that employees will be restricted from 1 April 2016 to only being able to salary sacrifice up to a theoretical \$5,099.96 worth of ME & EFL benefits. Depending on how the legislation is drafted and enacted this limit may restrict employees to only \$2,549.98.

The final outcome will only be known once legislation to enact the changes is released and passed.

#### What are the issues for employers and employees to look out for?

The obvious impact on employees is the new introduction of a legislative cap on the amount they can salary sacrifice.

This will mean some employees will see a reduction in their after-tax salary as a result of being able to salary package a lower amount for these benefits.

What is also important for employees to be aware of is the new inclusion of a Reportable Fringe Benefits Amount (RFBA) on these benefits. This may impact on certain Centrelink entitlement issues, child support and maintenance payments and it will have HELP repayment implications for some employees.

Employers are going to need to wait for the legislation to be released before they can assess the finer details of how this announcement is going to impact the organisation and its employees. Some aspects for consideration are cap management, GST implications on benefits, employee expectations and HR resources.

We will circulate additional information about these changes as they are released by Government.

## Who is the Charities Tax Advisory Service?

The CTAS Group of companies provide a range of tax, administration, salary packaging and fleet services to the not-for-profit sector in Australia.

CTAS clients range from small not-for-profit organisations with only a few staff to Australian organisations with 1,000's of staff. Our clients operate in a number of subsectors and include employment agencies, social welfare organisations, churches, disability service providers, migrant centres, childcare providers, health promotion charities and drug & alcohol rehabilitation services.

If you have any questions please feel free to contact our office on 1300 737 061 and do not hesitate to forward this update to any other organisation that you think may benefit from this information.

The services of the group are summarised below:



Phone: 1300 737 061 or  
Email: [info@ctas.net.au](mailto:info@ctas.net.au)

CTAS provides tax and accounting services to Not-For-Profit organisations in the following areas:

- Assistance with Income Tax Endorsement and ACNC Registration
- Advice on gifts / tax deductibility, gift funds & fundraising
- GST Compliance and system reviews specifically designed for Charities
- FBT Compliance and Consulting (especially advice for organisations looking to optimise their concessional cap limits) & the completion of FBT Returns
- Assistance with basic and complex tax compliance matters
- Assistance to organisations undergoing an ATO compliance audit
- Training seminars in tax, salary packaging and superannuation for the not-for-profit sector



Phone: 1300 737 061 or  
Email: [info@communitysalarypackaging.com.au](mailto:info@communitysalarypackaging.com.au)

Community Salary Packaging offers salary packaging services designed for the not-for-profit sector in Australia. There are two main programs run by Community Salary Packaging including:

- A Fully Outsourced Salary Packaging Program
- The Community Salary Packaging Card Program



Phone: 1300 537 785  
Email: [info@simplefleet.com.au](mailto:info@simplefleet.com.au)

Simple Fleet Solutions works closely with Community Salary Packaging and offers fleet solutions to organisations in the not-for-profit sector in Australia to assist with the management of their motor vehicle fleets (in the context of their salary packaging programs).

Simple Fleet Solutions provides a variety of fleet services including online fleet management software, discounted fuel card programs with Shell & Caltex, motor vehicle financing options including fully maintained novated leasing and operating leases, vehicle procurement & FBT compliance services including an Operating Cost Logbook Processing program.