

2015 FBT Return Survey Report

Entertainment dominates manual FBT process

FBT, Payroll & Salary Packaging Solutions is delighted to release our 2015 FBT Return Survey report. Thank you to everyone who participated in the survey.

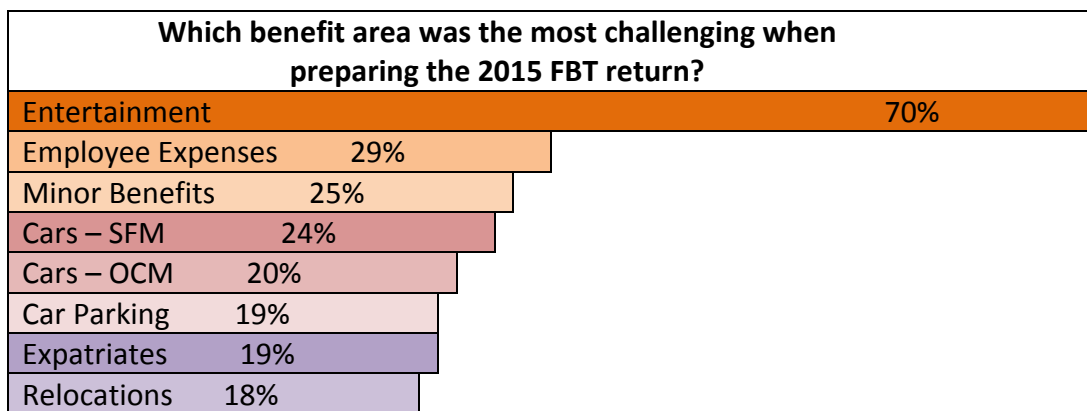
The results provide great insight in to the FBT Return preparation process, the pain points, risk areas, opportunities and a few surprises.

After analysing the survey results, we have identified the following major learnings:

1. **Entertainment & employee expenses** are the most challenging areas; and
2. Businesses in 2015 are technologically deficient when it comes to
 - a. **preparing their FBT returns;**
 - b. **obtaining valid car logbooks from their employees;** and
 - c. **managing the employee expense process.**

The Entertainment & Employee Expense Challenge

A staggering 70% of respondents said that Entertainment presented the greatest challenge when preparing the 2015 FBT return. Further the next ranked challenging benefit areas were Employee Expenses at 29% and Minor Benefits at 25% - both of which are heavily influence the Entertainment challenge.



What makes the Entertainment statistic of 70% even more alarming is, as mentioned above, 70% of respondents said that the Finance team were primarily responsible for the preparation of the 2015 FBT Return. **Therefore, if the Finance teams in organisations struggle with Entertainment, and on the basis Finance have the best**

understanding of the GL data and finance systems, then what hope (and with no disrespect) do the Tax, Payroll and HR teams have when they are primarily responsible (based on 30% of survey responses) for preparing the FBT returns!

So why are Entertainment & Employee Expense such challenging areas for FBT and tax reporting?

There are a number of reasons:

- A. Lack of policy guidance for employees when preparing expense claims;
- B. Acceptance of employee expense claims that lack the appropriate information for determining the tax treatment;
- C. Poor accounts structure and lack of definition; and
- D. The requirement to separately identify:
 - a. Sustenance;
 - b. Meal Entertainment;
 - c. Facility Leasing Costs;
 - d. Recreational Entertainment Costs;
 - e. Travel costs; and
 - f. Gifts.

Employers need to have a system in place that clearly:

- I. Identifies attendees at meals and functions, split between employees & non-employees, those travelling and those not travelling; and whether the meals and functions were on premises or off premises; and
- II. Distinguishes between food & drink provided for an entertainment purpose, and food & drink provided for the purposes of sustenance.

The complex tax rules that apply to Entertainment expenses demand a level of detail and discipline that many businesses, their employees and systems struggle with. Let's not forget, the Entertainment tax challenge is not just about FBT, we also need to consider the GST and Income Tax implications. Some of the key requirements demanded are:

- 1. A well-defined chart of accounts with particular emphasis on separating meals, meal entertainment, other entertainment & travel costs, and attendee type;
- 2. A well designed and user friendly employee expense claim process that manages the tax reporting implications;
- 3. Clear written policies and procedures; and
- 4. Employee training and reference material.

I'd like some technology please?

The 2015 FBT return survey has highlighted 3 key areas where employers are technologically deficient

1. 60% of employers use spreadsheets to prepare their FBT return;
2. 85% of employers accept manual car logbooks that are handwritten or prepared in a spreadsheet; and
3. Entertainment remains the most difficult area to manage when preparing the FBT return – this is largely due to the use of manual expense claim processes or a poorly designed electronic employee expense process.

Employers are in the red when it comes to Preparing their FBT Returns.

How did you prepare your 2015 FBT Return	
Manual Spreadsheets 60%	Software 40%

Preparing FBT returns manually increases the risk of error significantly due to:

- a) The FBT return process becoming manually intensive;
- b) Time wasted on tasks including manual rollover, updating formulas and links, data input, checking calculations, verifying integrity, maintaining version control and extracting data for reporting;
- c) The focus shifting to managing the spreadsheet data and calculations, less time spent on identifying benefits, analysing tax implications and opportunities; and
- d) Uncertainty increases in the review & sign off process.

Employers are in the red by allowing Employee's to prepare handwritten or spreadsheet based Car Logbooks.

How do your employee's prepare Car Logbook?	
Manual Logbook 85%	Electronic 15%

In the age of electronic cloud computing, we were surprised that 85% of employers accept handwritten or excel prepared car logbooks. A manually prepared logbook places heavy reliance on the employee to spend the time accurately recording the details of each journey. This often leads to mistakes (that are not detected) and uncertainty. This is not a good outcome when employers are placing reliance on the manual record keeping for compliance purposes for up to 5 years!

What else did we learn from the survey?

Who prepared the 2015 FBT Return?

Who had primary responsibility for the 2015 FBT Return preparation?	
Finance Teams 70%	Tax, Payroll & HR Teams 30%

In 70% of businesses, Finance had primary responsibility for preparation of the 2015 FBT Return. The remaining 30% of businesses said that Tax, Payroll and HR teams were responsible.

However, it was clear from the results that the FBT Return preparation is a shared responsibility across all key functional areas (Finance, Tax, Payroll and HR teams) and other areas in the business, together with input from individual employees.

Was preparing the 2015 FBT return a priority for you?

Not surprisingly, with such a large percentage of Finance teams involved in the FBT return preparation, one of the key challenges was **“preparing the FBT return whilst still doing my day job”** or **“preparing the FBT return had to compete with my day job”**.

“Gathering all the data from multiple sources within the organisation and outside the organisation” represented a significant challenge for most respondents. This is something we know and are well aware of – it is the nature of the FBT beast!

In addition, **“obtaining the required data, information and necessary explanations from colleagues and third parties”** were further challenges. Sourcing the data, obtaining the data, analysing the data, and making sense of the data – often require multiple communication relays of queries and answers. It is difficult to ask the right questions up front until you have a base understanding of the particular expense, benefit or arrangement.

How many times did you claim the minor benefits exemption when preparing your 2015 FBT Return?

13% of employers claimed the minor benefit exemption more than 12 times per employee, 22% claimed 6-12 times and 57% claimed less than 6 times. 8% of employers were unsure due to data problems.

With 61% of employers using the actual per head method to value meal entertainment it is not surprising that employers are applying the minor benefits exemption broadly.

We hope the above was a useful insight to the 2015 FBT return process, challenges and risks. If you would like to discuss any aspect of the 2015 FBT Return Survey further, or require assistance with your 2016 FBT return preparation, please let us know.

Thank you to all who participated in the 2015 FBT Return survey – we appreciate your time and effort!

Best wishes for your 2016 FBT Return process. On the next page we outline how we can help you to make your 2016 FBT Return Season a success.

Yours in FBT

Paul Mather
Director & Registered Tax Agent
FBT, Payroll & Salary Packaging Solutions

Sydney: Level 4, 95 Pitt Street, Sydney NSW 2000
T: 02 8079 2924 F: 02 8249 8101 M: 0403 050 358
Melbourne: Level 39, 385 Bourke Street Melbourne, VIC 3000
T: 03 8459 2133 F: 03 8459 2102 M: 0403 050 358

E: paul.mather@fbtsolutions.com.au
W: www.fbtsolutions.com.au

How we can help to make your 2016 FBT Return Season a success...

Full Day 2016 FBT Return Preparation Seminars (9am – 4.45pm)

We are hosting five full day 2016 FBT Return preparation seminars across Australia as follows:

- A. Wednesday 24 February – Sydney Hilton <http://tinyurl.com/24-Feb-Sydney>
- B. Tuesday 1 March – Perth Parmelia Hilton <http://tinyurl.com/1-March-Perth>
- C. Thursday 3 March – Melbourne Hilton South Wharf <http://tinyurl.com/3-March-Melbourne>
- D. Wednesday 9 March – Brisbane Hilton <http://tinyurl.com/9-March-Brisbane>
- E. Wednesday 16 March – Sydney Hilton <http://tinyurl.com/16-March-Sydney>

From your desk, 2016 FBT Webinar Essentials Training (90 minutes duration)

Thursday 17 March - 2016 **Australian** FBT Essentials Update Webinar

To register or for more information: <http://tinyurl.com/Aust-FBT-Essentials-Webinar>

Tuesday 22 March - 2016 **New Zealand** FBT Essentials Update Webinar

To register or for more information: <http://tinyurl.com/NZ-FBT-Essentials-Webinar>

In-house training session

1. You decide the agenda - we will help you to design the session;
2. You decide the time and place, and length of the session;
3. You choose the audience (Finance, Tax, HR, Payroll, etc); and
4. You choose the style (presentation, workshop, discussion group etc).

FBT Return assistance

We can assist with your 2016 FBT Return in a number of ways, including:

- A. Undertake a review (detailed, high level or in-principle) and lodge the 2016 FBT return (including lodgement extension);
- B. Full outsource of the 2016 FBT Return Preparation process including detailed GL & expense review analysis; or
- C. Project management & technical guidance in preparing your 2016 FBT return.

If you have any queries on our FBT Return assistance services, 2016 training program or would like to discuss in-house training options, please contact us:

info@fbtsolutions.com.au or 02 8079 2924.