

FBT 2026: What the ATO is Targeting Right Now

The Fringe Benefits Tax (FBT) year ends on 31 March 2026. Most FBT problems don't come from doing the wrong thing... They come from missing small details before 31 March. And this year, the ATO is looking closely at exactly those details—especially around vehicles, entertainment and record keeping.

Here's what we're seeing right now

We're already reviewing client files and the same issues keep coming up:

- Work vehicles assumed to be “exempt” when they're actually subject to FBT
- Staff meals claimed as deductions, but no FBT reported
- Logbooks missing, expired or not audit-ready
- Contractor arrangements that may actually be treated as employees
- Employee contributions recorded late or incorrectly

Individually, these seem small. But together, they can turn into **unexpected tax, penalties and interest**. The ATO is actively data-matching and reviewing these areas—so getting it right before year-end is critical.

What you should do before 31 March

To stay on the front foot, we recommend:

- ✓ Take odometer photos for all vehicles on 31 March
- ✓ Confirm your logbooks are current and accurate
- ✓ Review any staff meals, entertainment or functions
- ✓ Check contractor arrangements are correctly classified
- ✓ Finalise any employee contribution arrangements
- ✓ Make sure your records are complete and accessible
- ✓ Fill in your FBT questionnaire and send to us by

These simple steps can prevent costly adjustments later.

Important FBT issues

FBT exemption for electric cars

Employers that provide employees with the use of eligible electric vehicles (EVs) can potentially qualify for an FBT exemption. This should normally be the case where:

- The employer owns or leases the car and allows a current employee to use the car;
- The car is a zero or low emission vehicle (battery electric, hydrogen fuel cell or plug-in hybrid electric);
- The car is both first held and used on or after 1 July 2022; and

- The value of the car is below the luxury car tax threshold for fuel efficient vehicles (which is \$91,387 for 2025-26 financial year).

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Plug-in hybrid vehicles no longer FBT exempt

From 1 April 2025, plug-in hybrid electric vehicles will no longer qualify for the FBT exemption **unless**:

- The use of the vehicle was exempt before 1 April 2025, **and**
- There is a financially binding commitment to continue providing private use of the vehicle on and after 1 April 2025.

If there is a break or change to that commitment on or after 1 April 2025 then the exemption won't normally be available any more.

Overlooking or misreporting FBT on private use of work vehicles

The ATO is actively using sophisticated data analytics to target employers who fail to report or incorrectly report fringe benefits. ATO compliance teams are specifically looking for businesses that:

- Fail to lodge FBT returns despite providing vehicles for private use.
- Misunderstand exemptions, particularly the common misconception that dual-cab utes are automatically exempt from FBT.
- Neglect record-keeping, such as failing to maintain valid logbooks or odometer readings to support their claims.
- Incorrectly apportion usage, often treating private travel—including garaging a vehicle at an employee's home—as business use.

To ensure compliance, the ATO emphasises that a vehicle is considered "available for private use" if it is garaged at or near an employee's home, regardless of whether they have permission to use it.

Employers are expected to:

- Correctly identify the vehicle type (which impacts on whether they are providing a car benefit or a residual benefit).
 - Maintain robust documentation, as invalid logbooks can lead the ATO to apply the "statutory formula method," often resulting in higher tax liabilities.

The ATO uses the [case study](#) of a Melbourne restaurant to illustrate the severity of non-compliance. In that instance, the lack of valid logbooks and failure to lodge returns resulted in a total liability of \$938,000, which included the base tax, a 75% penalty for reckless

behaviour, and significant interest charges. This highlights that the ATO is prepared to impose heavy financial penalties on businesses that deliberately avoid or carelessly manage their FBT obligations.

Does FBT apply to your contractors?

The FBT rules tend to apply when benefits are provided to employees and certain office holders, such as directors. FBT should not apply when benefits are provided to genuine independent contractors but determining whether a worker is an employee or contractor can be a complex process in some cases.

Are your contractors really contractors?

The ATO's ruling [TR 2023/4](#) helps determine whether a worker is an employee or an independent contractor.

If the parties have entered into a written contract, then you need to focus on the terms of that contract to establish the nature of the relationship (rather than looking at the conduct of the parties). However, merely labelling a worker as an independent contractor doesn't necessarily mean that they won't be treated as an employee if the terms of the contract suggest that the parties have entered into an employment relationship.

The ATO has also issued [PCG 2023/2](#) that sets out four risk categories. Arrangements will tend to be viewed in a more favourable light where:

- There is evidence to show that you and the worker have agreed on the classification;
- There is a comprehensive written agreement that governs the relationship;
- There is evidence that you and the worker understand the consequences of the classification;
- The performance of the arrangement hasn't deviated significantly from the terms of the contract;
- Specific advice has been sought confirming that the classification is correct; and
- Tax, superannuation, and reporting obligations have been met when the worker is classified as an employee or independent contractor (whichever relevant).

If your business engages contractors, you should have a process in place to ensure the correct classification of the arrangements and to determine the ATO's risk rating. These arrangements should also be reviewed over time.

Even when a worker is a genuine independent contractor, just remember that this doesn't necessarily mean that the business won't have at least some employment-like obligations to meet. For example, some contractors are deemed to be employees for superannuation guarantee and payroll tax purposes.

Reducing the FBT record keeping burden

Record keeping for FBT purposes can be onerous. However, due to some recent developments your business will have a choice to keep the existing FBT record keeping methods, use existing business records where those records meet the requirements set out by a relevant legislative instrument, or a combination of both methods:

- Travel diaries – see [LI 2024/11](#)
- Living-away-from-home-allowance – FIFO/DIDO declarations – see [LI 2024/4](#)
- Living-away-from-home – maintaining an Australian home declaration – [See LI 2024/5](#)
- Otherwise deductible rule – expense payment, property or residual benefit declaration – See [LI 2024/6](#)
- Otherwise deductible rule – private use of a vehicle other than a car declaration – See [LI 2024/7](#)
- Car travel to an employment interview or selection test declaration – See [LI 2024/14](#)
- Remote area holiday transport declaration – See [LI 2024/10](#)
- Overseas employment holiday transport declaration – See [LI 2024/13](#)
- Car travel to certain work-related activities declaration – See [LI 2024/9](#)
- Relocation transport declaration – See [LI 2024/12](#)
- Temporary accommodation relating to relocation declaration – See [LI 2024/8](#)

FBT housekeeping

It can be difficult to ensure the required records are maintained in relation to fringe benefits – especially as this may depend on employees producing records at a certain time. If your business has cars and you need to record odometer readings at the first and last days of the FBT year (31 March and 1 April), remember to have your team take a photo on their phone and email it through to a central contact person – it will save running around to every car, or missing records where employees forget.

The top FBT risk areas

Mismatched claims for entertainment – claimed as a deduction but no FBT

One of the easiest ways for the ATO to pick up on problem areas is where there are mismatches.

When it comes to entertainment, employers are often keen to claim a deduction but this can be a problem if it is not recognised as a fringe benefit provided to employees. Expenses relating to entertainment such as a meal in a restaurant are generally not deductible and no GST credits can be claimed unless the expenses are subject to FBT.

Let's say you taken a client out to lunch and the amount per head is less than \$300. If your business uses the 'actual' method for FBT purposes, then there often won't be any FBT implications. This is because benefits provided to clients are not subject to FBT and minor benefits (i.e., value of less than \$300) provided to employees on an infrequent and irregular basis are generally exempt from FBT. However, no deductions should be claimed for the entertainment and no GST credits would normally be available either.

If the business uses the 50/50 method, then 50% of the meal entertainment expenses would be subject to FBT (the minor benefits exemption would not apply). As a result, 50% of the expenses would be deductible and the business would be able to claim 50% of the GST credits.

Employee contributions by journal entry in the accounts

Many businesses use after-tax employee contributions to reduce the value of fringe benefits. It is also reasonably common for these contributions to be made by journal entry through the accounting system only (rather than being paid in cash).

While this can be acceptable if managed correctly, the ATO has flagged numerous concerns including whether journal entries made after the end of the FBT year are valid employee contributions.

For an employee contribution made by way of journal entry to be effective in reducing the taxable value of a benefit, **all** of the following conditions must be met:

- The employee must have an obligation to make a contribution to the employer towards a fringe benefit (i.e., under the employee's remuneration agreement);
- The employer has an obligation to make a payment to the employee. For example, the parties may agree that the employer will lend an amount to the employee or the employee might be entitled to a bonus that hasn't been paid yet. If a loan is made by the employer then this could trigger further tax issues that need to be managed;
- The employee and employer agree to set-off the employee's obligation to the employer against the employer's obligation to the employee; and
- The journal entries are made no later than the time the financial accounts are prepared for the current year (i.e., for income tax purposes).

Failing to ensure that arrangements involving fringe benefits and employee contributions are clearly documented can lead to problems. For example, the ATO may ask to see evidence of the fact that the employer is actually under an obligation to make contributions towards a fringe benefit. If there is no evidence, then significant FBT liabilities could arise.

Also remember that if the arrangement involves the business providing a loan to an employee this can trigger a separate loan fringe benefit issue that needs to be managed.

Not lodging FBT returns

The ATO is concerned that some employers are not lodging FBT returns when required to.

If your business employs staff (even closely held staff such as family members), and is not registered for FBT, it's essential to ensure that the position is reviewed to check whether the business could potentially have an FBT liability.

If the business provides cars, car spaces, reimburses private (not business) expenses, provides entertainment (food and drink), employee discounts etc., then you are likely to be providing at least some fringe benefits.

There is a list of benefits that are considered exempt from FBT, such as portable electronic devices like laptops, protective clothing, tools of trade etc. If your business only provides these exempt items, or items that are infrequent and valued under \$300, then you are unlikely to have to worry about FBT.

If you're unsure whether your business is exposed—or just want peace of mind—we can run a quick FBT review with you before year-end. Just reply to this email or call the office and we'll organise a time. Make sure you have reviewed the FBT client questionnaire we sent you! **Better to get this right now than fix it later.**