

A Suggestion for Fringe Benefit Tax Changes for Public Transport Tickets

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1 Abstract

Seasonal public transport tickets have a higher tax burden and higher reporting burden than non-seasonal tickets and private transport. This document proposes a tax amendment which would solve this problem without having any noticeable effect on the national budget.

2 Background

I run a small company with employees going to several different sites and I've noticed an incongruity in the Australian tax legislation which is penalising public transport over private transport.

- If I pay for an employee to take a taxi to a client's office in the CBD every morning and afternoon, there's no question that that is a valid business expense.
- I could also choose to pay for train tickets back and forth each day. In Sydney at least, this would be more expensive than paying for a weekly travel pass.
- But, if I pay for the worker's travel pass, **it is regarded as a fringe benefit**, since they could also use it for personal use and there is tax to pay for it – or at least the need to consider FBT implications.

Obviously, this is a problem since the most cost-effective option (and the most economically efficient for all parties) suffers not only a tax burden, but also a special reporting burden.

I have thought deeply about this for a while now, and I don't think it's a symptom of any deeper phenomenon – I think it's just an odd situation that got overlooked in the drafting of the current tax law. So, very specifically, what I think needs to be done is to amend the Fringe Benefits Tax Act of 1986, adding a clause 47A(1B) which corrects this, perhaps using the following wording.

**Fringe Benefits Tax Act of 1986, Clause 47A(1B)
(Proposal)**

"Where:

- i) an employer provides a residual benefit of a time-based pass for the use of public transport;
- ii) the employee uses the pass to travel between places at which the employee performs duties of that employment;

the benefit is an exempt benefit."

3 Further discussion

The effect would be that it would encourage employers to supply TravelPasses (or equivalent) to their staff because it would be cheaper to do so than it is at the moment.

You could have a quarterly or yearly universal public transport pass bundled in as part of your salary (for example) as long as you could demonstrate that as part of your job you sometimes had to leave your normal place of work and go somewhere else. That is, in the same way that lots of people salary sacrifice cars, this levels the playing field for a salary-sacrifice universal public transport pass.

Worldwide, this is not an usual situation. When I was working in Zürich (Switzerland), employer contributions towards the cost of an annual public transport pass were quite common.

4 Financing

Employers would be more likely to buy an expensive multi-region pass to save on administrative costs. This would still be cheaper (for the employer) than compensating an employee with a higher salary to pay for their own commuting. Both the employer and employee stand to benefit from this. The relevant state government would be benefit from the more expensive ticket sales (and the lower costs associated with lower volumes of sales).

The effect of this is that employers would be in effect opting to send extra money to support (state-based) public transport infrastructure directly while reducing their federal taxes. This could be compensated for accordingly in the remittances given by the federal government to the states.

Thus there is no reason to expect there will be any effect on the federal of state budgets, and every reason to expect that this is a net win for all parties from the improved efficiencies of adopting the FBT amendment I proposed above.

5 About the author

This document is a (very late) submission to the Senate Inquiry into the investment of Commonwealth and State funds in public passenger transport infrastructure and services.

It was written by Mr Gregory David Baker.