

The rules around fringe benefits for employee's working in a charity have recently changed. Prior to the change there was a near blanket exemption from Fringe Benefit Tax (FBT) for charities.

From 1 April 2014 charities will no longer be exempt from paying FBT on vouchers (including petrol, grocery, book, record/dvd vouchers, etc.) and what are termed "short term charge facilities that are given to employees when the total value of such benefits is more than 5% of the employee's salary or wages (including honoraria), or \$1,200, whichever is the lower.

Where are several key components to this.

1. The new regime starts on 1 April 2014. You do not need to worry about these types of payments BEFORE 1 April 2014.
2. It only applies to EMPLOYEES. The definition of "employee" for FBT purposes is an extensive one, and includes (as far as is relevant to the Church) a person who receives or is entitled to receive a PAYE income payment. That term includes recipients of schedular payments (i.e. what would normally be considered self-employment income but which is subject to withholding tax). Honoraria are an example of a schedular payment and therefore people who receive an honoraria of some description would be classified as an employee for the purposes of FBT.

In respect of volunteers, there are a few things that will be particularly relevant to consider when thinking about FBT (and tax in general).

Firstly, is the person you consider to be a volunteer truly a volunteer or is there some element of (what was archaically called) a "master-servant" relationship? If they are true volunteers then they cannot be regarded as being employees in the ordinary meaning of that word.

Secondly, are they receiving or entitled to receive a PAYE income payment? If all you are doing is reimbursing actual expenditure, then that would not be a PAYE payment. Reimbursing allowances are generally exempt from tax. The Income Tax Act had changes made to it in 2009 to better define what was and was not income in the hands of volunteers but that is beyond the scope of this advice.

So, what is a volunteer for the purposes of Income Tax?

A volunteer is "a person who freely undertakes an activity in New Zealand—

- (a) chosen either by themselves or by a group of which they are a member; and
- (b) that provides a benefit to a community or another person; and
- (c) for which there is no purpose or intention of private pecuniary profit for the person."

Based upon advice received, volunteers are not employees and therefore the FBT should not apply.

Volunteers who receive honoraria (which is subject to withholding tax) will be employees for the purposes of FBT and will therefore potentially be caught (subject to the exemptions).

3. FBT is only payable on "vouchers" and "short term charge facilities". Vouchers is a straight forward concept to understand. What is a short term charge facility? This is what the IRD say it is:

A short-term charge facility allows you to buy, hire or charge goods or services.

Some examples are that:

- *your employer provides you with vouchers as a payment for work you've done or as a reward or bonus*
- *you can use your employer's business charge account with a supplier for your own private purchases*
- *you're able to use a business credit card for private purchases*

and you're not required to pay all the costs associated with the purchase, including any interest and fees.

4. The value of the benefit to the employee needs to be more than 5% of the employee's salary or wage or \$1,200 whichever is the lower.

Also see the following:

<http://www.ird.govt.nz/news-updates/like-to-know-fbt-changes.html>

<http://www.ird.govt.nz/income-tax-individual/income-adjust/employer/>

Examples:

A parish pays the travel cost of an organist to travel from Christchurch to Oxford and return by way of a \$40.00 petrol voucher. Does the Parish have to pay FBT? The answer is clearly "NO". The person is NOT an employee of the parish as he/she does not meet the "employee test" for FBT and the amount is well under the \$1,200.

As part of a written employment agreement, a parish is required to pay its employee \$5,000 of petrol vouchers for non-specified travel incurred but the employee does not keep a log book and record is kept of the travel. The employee is paid, in addition to the petrol vouchers \$48,000 per annum. In this case FBT would need to be paid as the person is clearly an employee and the amount is over the \$1,200 threshold.

A treasurer in a large parish is paid an \$18,500 per annum honoraria for undertaking the parish treasurer work and administration work within the parish. The honoraria is paid through the Connexional Payroll system and withholding tax is deducted. The parish decide that due to the amount of work being undertaken and the travel between its properties that the parish will give the treasurer another \$1,000 in petrol vouchers. In this case, the treasurer is an employee for the purposes of FBT (due to withholding tax being paid on the honoraria). 5% of the honoraria is \$925. Therefore the difference between \$925 and the \$1,000 paid in vouchers needs to be declared as FBT.

If you believe that you may fall into the new FBT rules, then please ring Peter van Hout in the Board of Administration (03 366 6049) to discuss your situation.