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## **CLIENT NEWSLETTER**

**11 March 2008**

### **TAX TIP – SAVING FRINGE BENEFITS TAX COST - Purchase of Motor Vehicles**

If you are contemplating the purchase of a motor vehicle within the next few months then the timing of this purchase may have more tax consequences than you anticipated.

If the following facts apply to you then you should consider purchasing your new vehicle prior to 31 March 2008 when:

- The vehicle will be purchased by the family trust or company which employs you.
- The business will possibly be paying fringe benefits tax on the vehicle using the statutory method (as opposed to the "% of business use" or "log book" method).
- You may retain the vehicle for four years or more.

When using the statutory method, fringe benefits tax is based on the cost of the vehicle. The benefit in purchasing the vehicle prior to 31st March is that this cost is "notionally" reduced to two thirds of the original cost when the vehicle has been held for four years at the start of the fringe benefits tax year (1st April). This results in lower FBT costs.

Therefore, by purchasing your vehicle just one month earlier, there would result a one - third reduction in fringe benefits tax one year earlier.

There are other issues to consider, including:

- The tax position on the sale or trade in of an existing vehicle.
- If you are registered for GST, the level of GST allowed to be claimed as an Input Tax Credit.
- Whether the new vehicle is under the depreciation cost limit (\$57,123 for 2007/2008) or not (sometimes this is an argument for waiting until July)
- Method of financing the new vehicle, consideration of prepayment of leases etc.
- Possible discounts available on vehicles in June "end of financial year sales".
- The most appropriate entity or name in which to acquire the new vehicle.
- Trade in value, log books etc.

**We recommend that you talk to us about any transaction before the deal is finalised.**

***What is "OBM"? Open Book Management***

The logic of OBM is simple:

Businesses in which all team members think and act like owners will outperform businesses in which only a few people at the top see that as their job.

*This Newsletter, of necessity, has dealt with matters of a technical nature in general terms only. Clients should contact us for detailed information on any of the items in the Newsletter. No responsibility for loss occasioned to any person acting or refraining from acting in reliance upon any material in this Newsletter can be accepted by any member of the firm.*