

Novated Leases

INFORMATION SHEET

Introduction

In the majority of cases, it will be both cost effective, and tax effective, to have a motor vehicle as part of a remuneration package due to the concessional treatment of a motor vehicle under the Fringe Benefits Tax legislation. The benefits of entering into a novated lease arrangement include:

- ✓ Your choice of motor vehicle, either new, used or an existing vehicle (subject to your employer's salary packaging policy).
- ✓ Vehicle is financed net (free) of GST.
- ✓ Salary Options provides a panel of financiers to ensure you get the best rate.
- ✓ A novated lease is portable should you change your employment.
- ✓ Unlimited private use.
- ✓ Fuel, maintenance, tyres, insurance and registration can be included.

Salary Options simplifies novated leases, providing clients with a professional and informative service. We tailor lease packages to your individual needs taking into consideration taxation benefits, cost effectiveness and the most suitable vehicle requirements.

The benefits of using Salary Options:

- ✓ Calculation of operating cost budgets covering lease, fuel, maintenance, registration, tyres, insurance, FBT, roadside assistance and all associated terms and charges.
- ✓ Salary impact analysis.
- ✓ Collation of documentation for submission to your employer's salary packaging company.
- ✓ Vehicle buying service for new and used cars.
- ✓ We use a panel of financiers, to choose the best leasing solution for you.
- ✓ Access to fleet discounting on many makes and models of vehicles.

What is a Novated Lease?

To enter into salary packaging arrangement for a motor vehicle, an arrangement called a Deed of Novation is prepared. This is commonly called a novated lease which is a three way agreement between you (employee), the lessor (financier) and your employer. Under a Deed of Novation, all rights and obligations (generally, excludes obligation to the residual value) are transferred to the employer during the term of the lease or the term of the employment of the employee.

A vehicle is leased from the financier under a finance lease in your name and is novated (assigned) to your employer by the way of a Deed of Novation. This enables your employer to pay for the costs of the lease together with all of the operating costs associated with the running of the vehicle. The total of all the operating costs are deducted from your gross salary, thus reducing your gross income and the income tax you are obligated to pay.

What is Fringe Benefit Tax?

A novated lease motor vehicle is concessionally taxed as a result of the calculation of their taxable value for the purpose of applying FBT. Depending on the annual kilometers to be traveled by the vehicle, a percentage factor is applied to the vehicle cost price in order to calculate the taxable value

Total KM traveled during the FBT year	Statutory Percentage
Less than 15,000kms	26%
15,000kms to 24,999kms	20%
24,999kms to 40,000kms	11%
Over 40,000kms	7%

Please note that the distance traveled is pro-rata per year. For example, if you take delivery of your new car on 1 October and have nominated 25,000kms as your annual distance, you must have travel at least 12,500kms by 31 March of the next year. The FBT year runs from 1 April to 31 March.

What is employee Contribution Method?

The Employee Contribution Method (ECM) enables you to reduce the FBT of your motor vehicle to nil by making a defined post tax contribution towards the operating costs of your vehicle. Under the ECM, the amount of your post tax contribution must equal the taxable value of the vehicle.

Under the "New Tax System (Fringe Benefits) Act 2000," contributions made by an employee towards the provision of a fringe benefit are subject to GST. The GST on the employee contribution is calculated as 1/11th of the amount contributed.

We recommend that all employees consult their financial adviser/accountant to determine whether the Employee Contribution Method is beneficial.

Calculating the Taxable Value

The taxable value of a motor vehicle provided to the employee by the employer is calculated by the following formula:

$$\text{Taxable value} = A \times B \times C/D - E$$

Where:

A = the cost of the vehicle

B = the statutory percentage

C = the number of days in the FBT year when the motor vehicle was used or available for private use by the employee

D = the number of days in the FBT year

E = the employee contribution (if any)

Calculating FBT

The FBT of a motor vehicle provided to the employee by the employer is calculated using the following formula:

$$\text{FBT} = \text{taxable value} \times \text{gross-up factor} \times \text{FBT}$$

For example:

The FBT liability on a motor vehicle with a cost value of \$25,000 which travels 18,000kms during the FBT year would be \$4,800.34 calculated as followed:

Taxable Value

$$(\$25,000 \times 20\% \times 365/365) = \$ 5,000$$

FBT liability

$$\$5,000 \times 2.064662 \times 46.5\% = \$ 4,800.34$$

At the end of the FBT year the actual FBT liability for each motor vehicle will be calculated based on the total number of kilometers traveled.

Depending on your employer, there are a variety of issues to consider in relation to the management of your FBT. You may be able to make a contribution toward the running costs of your vehicle which can be used as an offset against the FBT liability applicable to your car. This is called the Employee Contribution Method.

Salary Options will discuss the options available to you to assist with the establishment of your salary package.

Lease Terms and Residuals

At the conclusion of a lease, the employee (lessee) may wish to submit an offer to purchase the vehicle at the residual price contained in your finance agreement. Alternatively, you may choose to refinance the residual value and continue your packaging arrangements. The residual value on a lease are determined in accordance with the ATO Interpretative Decision (ATO ID 2002/10074) issued by the Australian Tax Office. The minimum values for novated lease terms set by the Tax Office are:

Lease Term	Minimum Residual
12 Months	65.63%
24 Months	56.25%
36 Months	46.88%
48 Months	37.50%
60 Months	28.13%

Vehicle Buying Service

Salary Options has a vehicle buying service that can source both new and used cars for you. This service enables you to take advantage of discounts levels equivalent to those usually reserved for fleet and large corporate clients. The discounts allow us to provide you with the most cost effective fully packaged novated lease.

Alternatively, if you are able to attain a price through friends or family or you are a great negotiator we will use your preferred supplier.

Proposal

The best vehicle price obtained is used to calculate your total package in the form of a proposal. The proposal details the total cost of your vehicle and operating costs. The total cost to you is detailed in gross salary terms and the anticipated effect on your take home pay.

The proposal can be faxed, emailed or mailed to you together with the calculations detailing the different effects on your salary if you were to choose our fully packaged novated lease in comparison to financing a vehicle outside of Salary Packaging.

Vehicle Delivery

Once we have received all of the necessary documents and approvals, we will order the vehicle and forward the lease documents for signing. The lease documents will include instructions to finalise the delivery of your new vehicle. We will instruct the delivering dealer to contact you to arrange the delivery time and location.

Servicing and Maintaining your Vehicle

If your employer or your salary packaging provider does not provide a fleet card, we are able to provide one for you. This card is to be used for the payment of the servicing and maintenance, fuel and tyres. By using this service you do not require to keep receipts or reimbursement claim forms. A monthly ATO approved account/ invoice will be directed to your employer or salary packaging provider for payment from your pre-tax income.

What now?

Call Salary Options on **1300 660 416** to discuss your vehicle requirements, or email info@salaryoptions.com.au

Impact of doing a Novated Lease on weekly take home pay

The table below displays the impact on an employees take home pay by salary packaging a novated lease. The figure shown is the amount an employee will see less in their pay per week.

On road Price	Gross Salary				
	\$30,000	\$50,000	\$70,000	\$80,000	\$100,000
\$60,000	\$ 305	\$ 305	\$ 290	\$ 290	\$ 285
	\$ 293	\$ 282	\$ 266	\$ 254	\$ 249
\$55,000	\$ 285	\$ 285	\$ 270	\$ 270	\$ 266
	\$ 274	\$ 265	\$ 248	\$ 238	\$ 233
\$50,000	\$ 265	\$ 265	\$ 250	\$ 250	\$ 246
	\$ 255	\$ 247	\$ 231	\$ 221	\$ 217
\$45,000	\$ 244	\$ 244	\$ 231	\$ 231	\$ 226
	\$ 236	\$ 229	\$ 213	\$ 205	\$ 200
\$40,000	\$ 224	\$ 224	\$ 211	\$ 211	\$ 206
	\$ 216	\$ 212	\$ 196	\$ 189	\$ 184
\$35,000	\$ 204	\$ 204	\$ 191	\$ 191	\$ 186
	\$ 197	\$ 194	\$ 178	\$ 173	\$ 168
\$30,000	\$ 184	\$ 184	\$ 171	\$ 171	\$ 166
	\$ 178	\$ 177	\$ 160	\$ 156	\$ 151
\$25,000	\$ 164	\$ 164	\$ 151	\$ 151	\$ 146
	\$ 159	\$ 159	\$ 143	\$ 140	\$ 135
\$20,000	\$ 143	\$ 143	\$ 131	\$ 131	\$ 126
	\$ 141	\$ 141	\$ 125	\$ 124	\$ 119
\$15,000	\$ 123	\$ 123	\$ 111	\$ 111	\$ 106
	\$ 124	\$ 124	\$ 108	\$ 107	\$ 103

Travelling <25,000 km p.a.

Travelling >25,000 km p.a.

Assumptions

48 month lease with 37.5% residual value.

All figures are GST inclusive. If your employer passes Input Tax Credits on to you, the figures above will reduce.

Includes lease, fuel, servicing, tyres, registration, insurance.

FBT has been calculated using the Employee Contribution Method.

** These figures are indicative only and do not take into account an employees individual situation. SGEFS recommends employees seek independent financial advice before entering into a salary packaging arrangement.