



## **Novated Vehicle Leasing**

# **The Association for Payroll Specialists**

**Novated Leasing and FBT - TAPS Oct 2007**

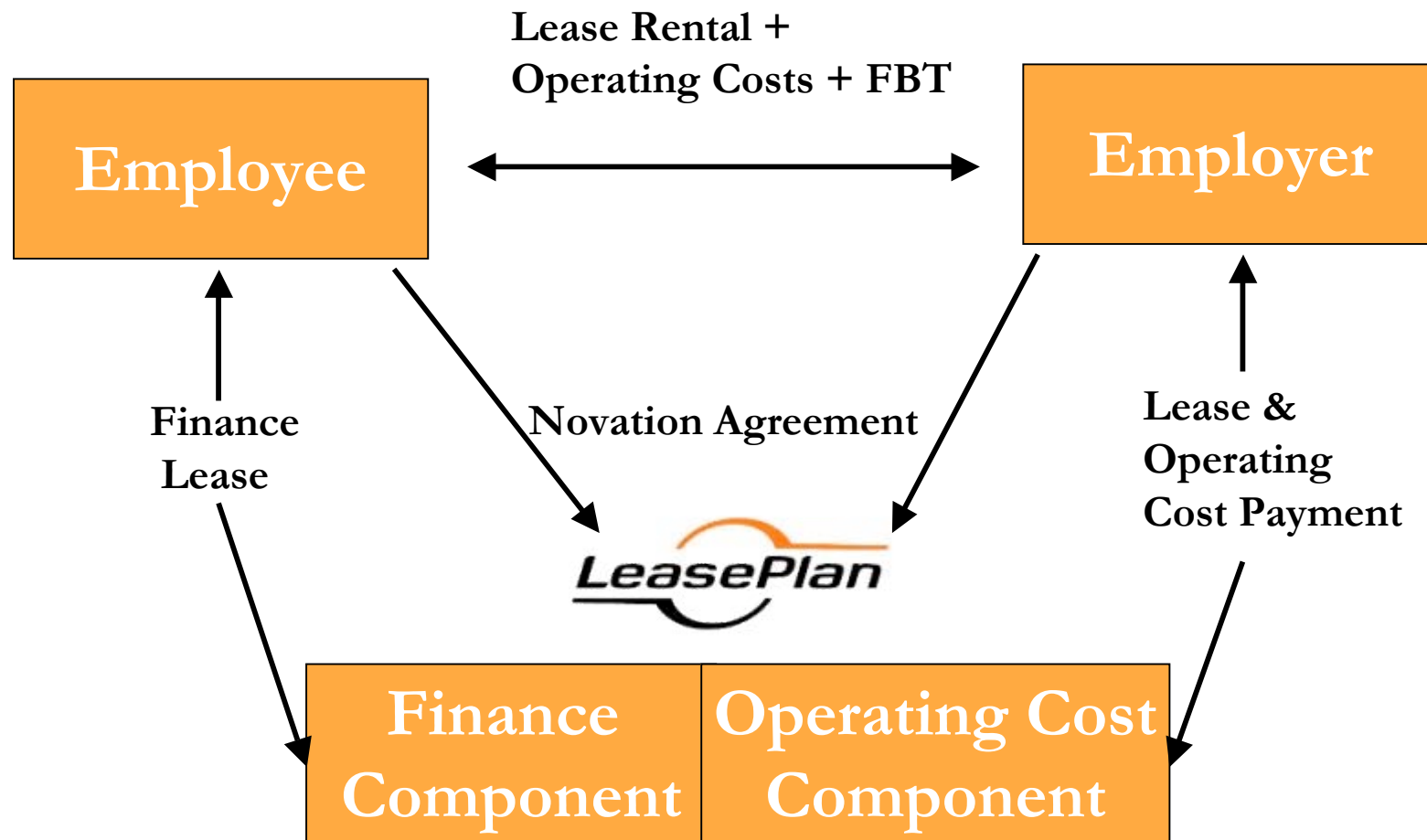
# Agenda

- ▶ LeasePlan Australia Overview
- ▶ What is a Novated Lease?
- ▶ Fringe Benefits Tax (FBT)
- ▶ Employee Contribution Method (ECM)
- ▶ Calculating FBT
  - Statutory Method
  - Operating Cost Method
- ▶ Sample Quotation
- ▶ Tips and Hints
- ▶ Salary Packaging – SalaryPlan Overview
- ▶ Questions

## LeasePlan Australia Overview

- ▶ Global leasing and fleet management industry leader since the 1960s
- ▶ Operates in 29 countries and manage +1.2 million vehicles with 85,000 in Australia
- ▶ Over 20,000 novated leases in today's fleet after it commenced offering the products in 1994
- ▶ Began operations in Australia in 1988, with offices in all major cities.
- ▶ The leading leasing and fleet management company in Australia and around the world

## What is a Novated Lease (Tri Party Agreement)



## Novated Lease – Benefits to Employee

- ▶ Build equity in the vehicle, and the possibility to achieve a tax-free profit on sale at end of lease
- ▶ Concessional tax benefit (FBT lower than PAYG)
  - Increase disposable income and – by using the Employee Contribution Method (ECM) – increase the tax benefit
- ▶ Purchase and operate a vehicle GST free
- ▶ Cost Effective fleet management practices
  - Savings on operating costs through full fleet management controls (up to 30% less than retail)
- ▶ Optional ‘safety nets’ available - such as the LeasePlan’s \$100 Handback, where if employment is terminated vehicle can be returned with no further liabilities, reducing the risk to the employee

## Novated Lease – Benefits to Employer

- ▶ No equity/capital of the Employer involved in the lease
- ▶ Lease payments are legitimate business expense and GST tax credits can be claimed
- ▶ Lower administration costs, as lease payments include all fleet management services – one invoice for all vehicles and all costs
- ▶ Individual lease schedules, advise of the amounts to be deducted for each employee
- ▶ If the employee leaves employment, responsibility for the vehicle and lease stays with them
- ▶ Assists in employee retention
- ▶ Flexible remuneration - helps motivate current employees and attract new employees - aim to be 'Employer of Choice'

## Services Provided in a Novated Lease

- ▶ Purchasing of the vehicle at best price, with significant discounts
- ▶ Vehicle repair, maintenance and tyres
- ▶ Comprehensive Insurance
- ▶ Fuel
- ▶ Registration & CTP
- ▶ Other Provisions (insurance excess or minor costs)
- ▶ Roadside Service
- ▶ FBT (reporting)

## Fringe Benefits Tax (FBT)

- ▶ When an employee packages a vehicle using salary sacrifice FBT is applicable
- ▶ Fringe Benefit Tax (FBT) is an employer levied tax which the employer recovers from the employee as part of the salary sacrifice
- ▶ The calculation is based on actual kilometres travelled in the designated 'FBT Year'- from 1st April to 31st March
- ▶ FBT can be eliminated or reduced by using the **Employee Contribution Method (ECM)**

## Employee Contribution Method (ECM)

- ▶ ECM is a mechanism which allows employees to make post-tax contributions towards the cost of operating the vehicle
- ▶ The post tax contribution is the Employee Contribution, and reduces or eliminates the FBT Liability
- ▶ Reduces the cost of the lease package, and seeks to improve the tax effectiveness of the packaging structure
- ▶ Makes novated leasing more attractive to any employee earning less than \$150,000 pa
- ▶ Lower to middle income earners who previously had no benefit via novated leasing can now achieve a good savings
- ▶ ECM = No FBT Liability
  - No reportable FBT on employee payment summaries
- ▶ More salary sacrifice via ECM results in lower payroll tax
  - Helps off-set employer admin costs

# Calculating FBT Liability

There are two ways of calculating FBT

- ✎ The most common is the Statutory Method (based on actual distance travelled per FBT year)

Kilometres travelled per annum	Rate
0 – 14,990	26%
15,000 – 24,999	20%
25,000 – 40,000	11%
40,001 +	7%

- 2 Not often used is the Operating Cost Method (This requires a logbook to be completed for 12 continuous weeks)

## FBT Calculation – Statutory Method

- ▶ A FBT Base Value (BV) for the vehicle must be calculated first:

FBT BV = Basic/List Price  
+ Options  
+ Dealer Delivery Charge  
- Fleet Discounts  
+ GST  
+ Luxury Retail Tax  
(only on vehicles over \$57123)

• Example:

\$30,000  
+ \$1,000  
+ \$500  
- \$2,000  
+\$2,850 (gst)  
+ 0.00  
**=\$31,350.00 FBT BV**

## FBT Calculation Cont.

- ▶ Next a Net Taxable Value (NTV) of the vehicle is calculated

$$\text{NTV} = \text{FBT BV} \times \text{Statutory Percentage} - \text{Employee Contribution}$$

Example: Assuming 25000 km's per annum (gives statutory percentage of 11%) and a EC of \$1000.00

$$\text{NTV} = \$31350 \times 11\% - \$1000$$

$$\text{NTV} = \$2448.50$$

- ▶ We then can calculate the FBT Liability

$$\text{FBT Liability} = \text{Net Taxable Value} \times \text{Gross Up Factor} \times \text{Tax Rate}$$

$$\text{FBT Liability} = \$2448.50 \times 2.0647 \times 46.5\%$$

$$= \$2350.77$$

- NB: Tax rate = 46.5 % and gross Up Factor = 2.0647

## FBT Calculation - Operating Cost Method

- ▶ To use the operating cost method to calculate FBT, the driver/employee must keep a valid logbook for a continuous 12 week period to assess the Private versus Business use components
- ▶ Using the log book data we calculate the Private Use Percentage (PU%).

$$\text{PU\%} = \frac{\text{Kms driven for Private Use}}{\text{Total Km's Driven}} \times 100$$

Example:  $\text{PU\%} = \frac{3400}{6300} \times 100$

**Giving a Private Use % of 54 %**

- ▶ Then the Taxable Value (TV) is calculated

$$\text{TV} = (\text{Total Operating Costs} \times \text{PU\%}) - \text{Employee Contribution}$$

Example: Assuming TOC of \$13500 and an EC of \$1000.00

$$\begin{aligned}\text{TV} &= (\$13500 \times 54\%) - \$1000 \\ \text{TV} &= \mathbf{\$6290.00}\end{aligned}$$

## Operating Cost Cont.

- ▶ We then can calculate the FBT Liability

**FBT Liability = Net Taxable Value X Gross Up Factor X Tax Rate**

$$\begin{aligned}\text{FBT Liability} &= \$6290.00 \times 2.0647 \times 46.5\% \\ &= \mathbf{\$6038.94}\end{aligned}$$

- Note: Tax rate = 46.5 %, Gross up factor = 2.0647
- This compares to the statutory FBT liability value of **\$2350.77**, this is why the operating cost method is not commonly used or popular

## Which Method to use?

- ▶ The most common method for novated leases is the statutory method, and is the method used by the ATO for all their employees' novated leases.
- ▶ Statutory method is easier to monitor
- ▶ Operating cost method is usually only beneficial to those employees that have a high business use component
- ▶ Business usage needs to be 75% plus, before operating cost method can become effective. This level of business use on a novated lease is very uncommon

# Sample Calculation

## Tips and Hints

- ▶ Have a salary sacrifice vehicle policy in place, that sets out to employees their obligations and yours as the employer
- ▶ Start payroll deductions on the lease start date (minimise deductions running past end date of the lease)
- ▶ Liaise with the leasing company to ensure that deficits in operating costs are minimised (no surprises)
- ▶ Track FBT to ensure that actual Km's align with estimated Km's otherwise extra costs may occur
- ▶ Reconcile actual FBT to that collected annually, and refund/collect from employee where required
- ▶ Ensure that reports tracking progress against budget are supplied to employees
- ▶ As an employer you need to ensure that employee terminations are communicated to the leasing provider prior to employee's last day of employment

## Salary Packaging - SalaryPlan

- ▶ LeasePlan's "SalaryPlan" service was established to administer all salary packaging arrangements for employers
- ▶ It involves the redirection of funds from employees payroll into a Trust Account and disbursements from the Trust Account to packaging benefit providers
- ▶ Flexible remuneration options help to motivate current employees and attract new employees - aim to be 'Employer of Choice'

# SalaryPlan - Benefits

## 1. Concessional Benefit

- ▶ Novated Lease
- ▶ Meal and Entertainment Expenses
  - Marginal benefit unless in the top income tax rate

## 2. FBT Exempt/Tax Free Benefits

- ▶ Laptops (one per FBT year)
- ▶ PDA/Mobile phone (primarily business use)
- ▶ Tools of Trade, Brief Case, Calculator
- ▶ Airport lounge membership
- ▶ In-house Childcare, In-house Gym/recreational facility
- ▶ In-house canteen (food delivered and consumed on business premises)

## SalaryPlan – Benefits cont.

### 3. Special Non-taxed

- ▶ Superannuation contributions are not subject to FBT if payments are made to a complying superannuation fund
  - Incurs tax at 15% when paid into the fund
- ▶ Remote area housing
- ▶ Living away from home expenses
- ▶ Relocation expenses

## SalaryPlan - Benefits cont.

### 4. Otherwise Deductible

- ▶ Self Education Expenses (not HECS)
- ▶ Interest payments on loan for rental property or share portfolio
- ▶ Cost of tax/financial advisors
- ▶ Business related software
- ▶ Small Capital purchases < \$300 business related items
- ▶ Home office expenses
- ▶ Lease on home computer (desktop) business use element only
- ▶ Protective Clothing, Trade/Professional journals

**Thank you for your time.**

**Any Questions?**



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# Laptop and Mobile Phone Fringe Benefits

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## Provision of certain work-related items are exempt fringe benefits:

- **a mobile phone or a car phone primarily for use in the employee's employment**
- an item of protective clothing that is required for the employment of the employee
- a briefcase
- a calculator
- a tool of trade
- an item of computer software for use in the employee's employment
- an electronic diary, a personal digital assistant (PDA) or similar item
- **a notebook computer, a laptop computer or a similar portable computer**
- a portable printer designed specifically for use with a notebook computer, a laptop computer or a similar portable computer

## Mobile Phones

1. Must be **PRIMARILY** for use in the employee's employment
2. Substantiation may be required
3. No limit on the value of the phone or the type of phone or the phone plan
4. Calls made on or rental plans for the phone are also exempt

## Mobile Phones

### A multi-function device:

- Is it a camera with a mobile phone function?
- Is it a mobile phone that can take pictures?
- Is it a more evolved PDA?



## Laptops

1. Does not have to be **PRIMARILY** for use in the employee's employment
2. No limit on the value of the laptop
3. Only one laptop per year will be exempt
4. An item of computer software for use in the employee's employment
5. A portable printer designed specifically for use with a notebook computer, a laptop computer or a similar portable computer

## Laptops

1. Purchased by the employer
2. Purchased by the employee and reimbursed by the employer
3. Leased by the employer
4. Loan taken out by the employee

## Packaging

<b>TEC</b>	8,333.33	8,333.33	
<b>Less Phone Plan</b>		180.91	
<b>Less Laptop</b>		318.18	
<b>Less Super</b>	688.07	646.86	
<b>Taxable Gross</b>	7,645.26	7,187.38	
<b>Tax</b>	2,102.00	1,911.00	
<b>Less Phone Plan</b>	199.00		
<b>Less Laptop</b>	350.00		
<b>In Hand</b>	4,994.26	5,276.38	282.12

**282.12 x 12 = 3,385.44 per year better off!**



# QUESTIONS?