

# Novated Leasing and Fringe Benefits Tax

## The Facts and the Advantages



Your novated lease payments use a combination of before and after-tax payments. This is known as the Employee Contribution Method (ECM).

Calculating your payments using ECM gets you greater savings as well as other benefits. But we know there are more questions to ask.

### WHAT IS FRINGE BENEFITS TAX?

A novated lease involves some of your pay being deducted before tax and used to make payments. This is called **salary packaging or salary sacrifice**.

Since paying less tax is a **benefit**, this creates a **Fringe Benefit** and the associated **Fringe Benefits Tax (FBT)**. FBT is currently charged at 47% which is often higher than the rate used on your personal income.

### WHAT IS AN EMPLOYEE CONTRIBUTION?

In order to **remove or reduce FBT**, part of the operating costs of your new car are **paid with your after-tax income**. This is your **Employee Contribution (EC)**.

### WHY DO I NEED TO PAY AN EC?

Making a contribution to the running of your car ensures you or your employer do not have to pay Fringe Benefits Tax.

### HOW IS MY EC CALCULATED?

We start by securing your new car at the best price possible through our procurement service - **saving you thousands**. We then calculate the car's FBT value, which is 20% of the purchase price (without stamp duty). This amount becomes your EC amount for the FBT year (1 April to 31 March).

### HOW DOES THIS AFFECT MY NOVATED LEASE?

We work with you to estimate your annual total running costs (TRC) for fuel, insurances, maintenance, registration and other operating costs.

There are usually GST savings available on many of these costs which give you another benefit with your lease. We also arrange your lease payments, over a term of 1 to 5 years.

These Total Running Costs are then reduced by your Employee Contribution. The remainder of your TRC are then paid by your employer from your before-tax income. This is another way you reduce your taxable income and save.

### HOW DOES ECM BENEFIT ME?

By paying a portion of your TRC with your own after-tax income, you do two important things:

1. Manage the FBT cost at your lower marginal tax rate instead of the high FBT rate, and
2. Eliminate any Reportable Fringe Benefits amount which could impact your HELP debt, Centrelink payments or Child Support Payments.

### MY EMPLOYEE CONTRIBUTION IS DIFFERENT TO MY QUOTE. WHY?

Your ECM payments depend on the date your new car is delivered. FBT applies from that date so we work with your payroll department to calculate how many pays you will have before 31 March. That first payday after your new car arrives will determine your EC and so it might differ from the quote as we need to collect the right amount before 31 March. The EC should then revert back to the amount on your quote for the remainder of the lease.



### WHAT DOES IT LOOK LIKE?

Below is an example comparing a personal loan, packaging with paying FBT and then packaging through the ECM method. The ECM method gives a clear saving, almost \$11,000 over the term of the lease.

	Without Packaging	With Packaging FBT Method	With Packaging ECM
<b>Gross Salary</b>	90,000	90,000	90,000
<b>Total Pre Tax</b>		22,332	6,216
<b>Taxable Income</b>	90,000	67,668	83,784
<b>Tax paid</b>	22,732	14,892	20,453
<b>Take home pay</b>	67,268	52,776	63,331
<b>Post Tax</b>	-	-	8,544
<b>Running Costs/Lease Payment</b>	14664.2	included in package	included in package
<b>Annual Net Salary</b>	52,603.8	52,776	<b>54,787</b>

**Saving with ECM per year**

**\$2,183 or \$10,916  
over the lease**

*Calculations based on a \$45,000 car being driven 15,000kms a year over a 5 year lease term.*

## Useful Terms

### Novated Lease

A three way agreement between you, your employer and Remunerator.

### Employee Contribution Method (ECM)

ECM is a way of calculating the deductions for a novated lease. A portion is from your post-tax income as well as from your post-tax income – this is where you save!

### Employee Contribution (EC)

EC is your post tax contribution to the Employee Contribution Method which reduces or removes the need for you or your employer to pay Fringe Benefits Tax.

### Fringe Benefits Tax (FBT)

Tax applied to benefits paid for with pre-tax income.

### Total Running Costs (TRC)

TRC refers to all services and their costs for running the car. This includes fuel, registration, insurance, repairs and maintenance for your car. We help you calculate an annual budget for TRCs as part of your novated lease.