



Understanding Novated Leases

SAVING TAX ON YOUR NEW VEHICLE

Novated Lease

A novated lease is an easy, convenient and flexible way to obtain your next vehicle. A novated lease allows you to salary package the finance and running costs of your chosen vehicle, meaning that the expenses are paid out of pre-tax salary, saving you money on income tax. You can also save on GST on the purchase price and running costs.

A novated lease is a legal agreement between you, your employer and your financier. The obligation of making lease payments is transferred to your employer through a Deed of Novation, and your employer will then deduct the amounts from your salary. We administer all this on your behalf making the process seamless and pain-free for you.

SalaryMasters can provide you with specialist knowledge so that you can make an informed decision when buying your next vehicle. Talk to one of our consultants today and start saving money!

Vehicle Choice

The choice of vehicle remains yours fully. Vehicles can be sourced from:

- New vehicles from a dealership of your choice
- Utilise our network of fleet discount dealers
- Used vehicles including those purchased from a dealership, auction house or through a private seller (age limits may apply)
- Your existing vehicle under a 'Sale and Leaseback' arrangement (age limits may apply)

Novated Lease Calculation

We will work with you to create a budget that takes into account the following items over the whole life of the vehicle lease term. This amount will then be split into a pre-tax and a post-tax component, and we will liaise with your payroll office to ensure your payroll deductions occur correctly.

- Lease cost
- Operating expenditure
- Fringe benefits tax (FBT) - if applicable
- Depreciation limit adjustment – if applicable

Lease Payment

The lease payment amount takes into account various factors including:

- The cost of the vehicle
- The lease term
- The residual value (also known as a balloon payment) of the vehicle at the end of the lease term which is set by the Australian Taxation Office and is calculated based on your nominated lease term

Operating Expenditure

SalaryMasters will provide you with a fully maintained novated lease, incorporating a budget for your running costs based on the kilometres you estimate to travel. This budget will include:

- Fuel costs (you have a choice of Caltex, BP or Shell fuel cards)
- Servicing, maintenance and minor repairs
- Registration renewals
- Tyre replacements
- Comprehensive insurance

Fringe Benefits Tax (FBT)

There are two methods for calculating the FBT, should it arise under you and your employer's circumstances. Depending on your employer's policies and your individual circumstances, we will suggest the most advantageous method for you:

1. Statutory Formula Method

This method doesn't need to distinguish between your private and business use of the vehicle. It is primarily based on the cost of the vehicle and a statutory fraction set under FBT legislation. This is the most common way to calculate the FBT liability and in most cases the liability will be offset by you making post-tax contributions up to the taxable value (known as the ECM Employee Contribution Method).

2. Operating Cost Method

This method does need to distinguish between your business and private use of the vehicle. FBT applies to the private use component only, so is often more beneficial for those with high business use of the vehicle. This method requires a logbook of kilometres travelled, clearly identifying business and private use. The logbook must be kept for a 12-week period and will be valid for 5 years, provided your employment details and residential address remain the same.

Depreciation Limit Adjustment

When the vehicle price is greater than the depreciation limit amount set by the ATO (currently \$57,581 but subject to annual review), we will calculate the additional cost and include this in your novated lease calculation. By packaging this amount, your employer neutralises the amount over the car limit that is not claimable as a tax deduction.

Payroll Deductions and Reporting

Each pay period, we will advise your payroll department of the amounts to be deducted from your salary, taking into account any other deductions you may have elected to salary package. Your payroll department will disburse the lease and operating costs to us, and we will pay the various suppliers on your behalf. Each month you will receive a Driver Report from us to keep you up to date with the expenses you have incurred against the budgets set.

Goods and Services Tax (GST)

The GST on the purchase price of the vehicle does not need to be financed as the financier will claim this as an Input Tax Credit (ITC) directly from the ATO saving you the amount. The current maximum GST claimable under a novated lease is \$5,234.64 which relates to a vehicle purchase price of \$57,581 (these figures are subject to annual review by the ATO).

Furthermore, the GST on all operating expenditure and the lease payments is also not charged to you as your employer will claim these back as an ITCs from the ATO saving you the amounts. GST will only apply at the end of your lease on the final payout figure (residual amount) as well as a slight adjustment if the calculation is based on the Employee Contribution Method.

End of Lease Options

Toward the end of your lease, you will have several options to choose from:

- Sell or trade-in the vehicle and enter into a new novated lease arrangement with a new vehicle. If you do choose this option, any profit made is a tax-free benefit to you.
- Refinance the existing residual amount of the vehicle for an additional period of time. In doing this, you will further reduce the residual value of the vehicle that will be payable at the time of eventual disposal.
- Purchase the vehicle outright at its residual value plus GST.
- Auction the vehicle through our connections with Pickles Novated Lease Remarketing.

At the end of your lease, we will reconcile your operating budget and refund any surplus of funds back to you through your payroll department. If there is a deficit in your account, you will be required to pay this amount directly to us.

Early Termination of Lease

It is important to remember that termination of any form of finance agreement prior to the end of lease period may incur additional costs. If you have a novated lease and wish to terminate earlier than the original contract entered, please contact us to discuss your options. We will provide you with a lease payout figure together with a reconciliation of your operating expenditure.

Loss or Change of Employment

Upon termination of your employment for any reason, the original Deed of Novation ceases and you become responsible for all future lease payments. These payments will need to come from your *post-tax* income unless your new employer allows you to continue the salary packaging arrangement.

If you are considering a change of employment, it is important that you negotiate with your new or potential employer the right to salary package so that you can continue your novated lease. In most cases, we can transfer the lease over to your new employer. It is important to notify us at the earliest possible time should a change of employment occur.

Lease Protection Insurance

We will include Lease Protection Insurance as part of your package. This protection aims to provide peace of mind in the unlikely event of involuntary redundancy.

Key features include (at time of publication):

- 10 months lease repayments up to a maximum of \$40,000 are covered while you seek new employment.
- The vehicle can be handed back at any time after the third month repayment has been approved, at no additional cost.

Gap Insurance

Gap insurance is designed to cover you if there is a difference between the insured amount and the lease payout amount in the event of a vehicle write-off. It needs to be added at the inception of your lease, and cannot be added later. Gap insurance is included as part of our comprehensive motor vehicle insurance (no limits), but even if you choose to use your own comprehensive insurance, you can still add our gap insurance to your lease package (some upper limits may apply depending on vehicle value).

More Information

For more information or to obtain a novated lease calculation, just visit salarymasters.com.au, call us on 1300 303 357 or email the following form to quotes@salarymasters.com.au.

NOVATED LEASE VEHICLE QUOTE

Please fill in the following form to obtain an obligation free quote on your chosen vehicle. One of our team will source the details and reply to you. Please email the completed form to quotes@salarymasters.com.au or call 1300 303 357 to discuss further details

Employer

Employee Name

Contact Number

Email Address

State/Territory Vehicle to be Registered In

Postcode for Insurance Purposes

For NSW CTP Only	D.O.B of Youngest Driver		
	Youngest Driver Gender	Male	Female

Gross Annual Salary

Length of the Lease (1-5 Years)

Payroll Frequency (Weekly, Fortnightly etc.)

Estimated Annual Kilometres Travelled

New/Used (Odometer Reading if Used)

Year of Manufacture

Vehicle Make

Model/Variant (Auto/Manual-Petrol/Diesel specific spec)

Vehicle Price

Dealership or Private Sale

NOVATED LEASE SAVINGS EXAMPLE

Amanda earns \$75,000 per year, and is considering a \$33,550 Mazda CX-5 Wagon, and expects to travel approx. 20,000km per year. The following is a comparison of the various forms of finance Amanda could use to obtain the vehicle and considers the total cost of use over a 5-year period. Many people might consider the cash, or even the low dealer finance, as the most cost-effective method, but the results may surprise you.

	Cash	Mortgage	1.0% Dealer Finance	Novated Lease
Vehicle Price	33,550	33,550	33,550	30,682
Annual Finance and Running Costs				
Repayment amount (or opportunity cost if cash)	554	7,392	6,876	6,358
Fuel @ \$1.65 litre	2,504	2,504	2,504	2,277
Servicing	986	986	986	720
Tyres	515	515	515	360
Registration	751	751	751	751
Comprehensive insurance	1,966	1,966	1,966	1,788
Roadside assistance	114	114	114	72
Pre-tax deductions income tax savings (ECM is inherently included in these figures)	-	-	-	-2,448
Total Annual Finance and Running Costs	7,390	14,228	13,712	9,878
Sale of Vehicle After 5 Years				
Red Book sale price	15,415	15,415	15,415	15,415
Residual/balloon payment	0	0	0	-8,438
Gain/Loss on Sale of Vehicle	-18,135	15,415	15,415	6,977
Cost of Use Over 5 Years				
Annual costs x 5 years	36,950	71,140	68,560	49,390
Gain/loss on sale of vehicle	-18,135	15,415	15,415	6,977
Total Cost of Use	\$55,085	\$55,725	\$53,145	\$42,413

Novated Lease Savings Over Next Cheapest Option: \$10,732

The figures above are offered in good faith, and are an indication to show how novated lease savings work. This is not intended as a vehicle quote or financial advice. Figures correct at time of publication using average banking and finance rates, and maintenance costs based on indicated driving kms per annum. In the vehicle price and running costs sections, the novated lease amounts are less due to a combination of fleet discount pricing available to our novated lease clients, as well as GST savings you will enjoy with a novated lease.

TESTIMONIALS

"Thanks, SalaryMasters staff. Your response & knowledge of Novated Lease helped me to choose. Step by step instructions with all the paperwork. Always available to answer questions/offer support." AS (ACT Government, ACT)

"The service that we received was absolutely fantastic and very fast. We were very happy with everything and the speed in which it was all done." DW (ACT Government, ACT)

"I would like to congratulate the entire team of SalaryMasters - you have made everything so much easier! It has been an absolute pleasure dealing with you!!" VY (Hellenic Museum, VIC)

"SalaryMasters were always very friendly, happy, prompt in replies and informative, and this is a big reason why you have my business over other leasing. Thanks for all your help; I am a very happy customer." TP (ACT Government, ACT)