

Salary Packaging and Novated Leases

Introduction

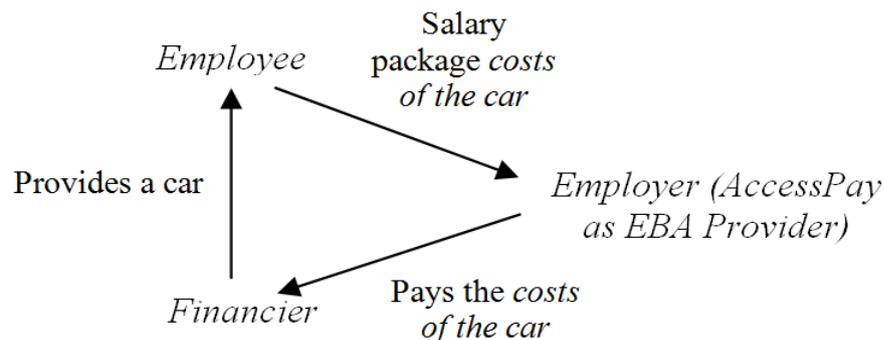
This AccessPay Fact Sheet is intended to provide guidance to employees about salary packaging a vehicle under a novated lease arrangement and highlight the potential benefits available by doing so.

A novated lease is a benefit that allows you to salary package the purchase of a vehicle and its ongoing running costs. The packaging of a novated lease is an additional benefit to your regular living expense packaging, though will impact the maximum you can package per annum. Packaging a novated lease will reduce your taxable income and could allow finance payments and running costs of the car to be packaged exclusive of GST.

The availability of novated lease and GST benefits is subject to your employer's salary packaging policy.

Structure of a Novated Lease

A novated lease is a 3 way agreement between an employer, employee and financier, which allows the lease payment to be deducted from your gross salary and paid on your behalf directly to the lease provider.



As per ATO legislation, a novated lease arrangement must always contain the following:

- Total finance amount – the total purchase price of vehicle must be financed (i.e. cannot be reduced by trade-in or deposit)
- Payment schedule – this will be fortnightly/monthly (depending on your pay cycle)
- Residual value – amount owing at the end of the lease (minimum percentage of finance amount set by ATO based on term)
- Term of lease – 12-60 months
- Novation agreement – document signed by employee, employer and financier

Novated Lease Options

- **Fully Maintained**
A fully maintained lease consists of a single lease payment that covers finance and running costs of the vehicle. Running costs include fuel, insurance, registration, servicing and maintenance, roadside assistance and tyres. These costs will be budgeted based on your estimated annual kilometres, and administered by the leasing provider. You are able to alter your budget for running costs at any time however this may incur a fee from your leasing provider.

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- **Partially Maintained**
A partially maintained lease occurs when only certain running costs are packaged. For example, you may only wish to salary package fuel. This arrangement does not maximise your tax saving.
- **Finance Only**
A finance only lease consists of packaging the finance only without any running costs. You may be able to claim these on your tax return – please contact your tax agent for further advice.

Starting Your Novated Lease – Process

In order to commence packaging a new novated lease, please refer to the below process:

- Contact AccessPay for novated leasing information and AccessPay Quote Collection Form.
- Complete Quote Collection Form and return to AccessPay Cars Team via email to cars@accesspay.com.au.
- AccessPay Cars Team will provide you with an indicative packaging report, including approximate lease payment. Packaging report will compare current and proposed salary packaging arrangements, and approximate disposable income.
- If you would like to proceed at this point, your quote is put out to tender to several leasing providers. Your vehicle is sourced from a dealership by either the leasing provider, or alternatively you can source the vehicle yourself.
- After a lease comparison is completed, the most competitive quote will be supplied to you with the lease application information and a packaging report.
- You will need to complete the lease application and send to the leasing provider. You will then be advised when finance is approved. Finance documents and novation agreement are drawn up by the financier and sent to you for signing – these documents must also be signed by your employer.
- Signed documents will need to be returned to the leasing provider. Funds will then be forwarded to the dealership for payment of your vehicle.
- You will be advised of settlement of the lease, and will be able to organise a time with the dealership to collect the vehicle. Your fuel cards will be ordered at this time.
- AccessPay Cars Team will contact you to advise your new salary packaging arrangements and ensure these are in place before your first payment is due.

Salary Packaging Your Lease

Your existing salary packaging arrangements **will** be impacted by a novated lease. You will no longer be able to package the full annual living expense amount (i.e. \$15900/\$9009); however you can package a reduced living expense amount (dependent on purchase price of vehicle). The lease payment amount is packaged in addition to your living expense amount. Therefore, your overall salary packaging amount will increase, reducing your taxable income.

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For example a subscriber who works at a \$30,000 exempt PBI organisation could package each fortnight as follows:

Without Novated Lease		With Novated Lease	
Mortgage	\$611.54	Mortgage	\$400.00
Lease Payments	\$0.00	Lease Payments	\$400.00
Total	\$611.54	Total	\$800.00

End of Lease Term

Prior to your lease ending you will be contacted by your leasing provider to advise of the options available to you at this time. They will inform you of the residual amount owing and the date it is due to assist you with your decision making.

You are able to choose one of the following options when the residual amount falls due:

- **Payout the residual amount** (either cash or personal finance). The vehicle is now owned by you but can no longer be salary packaged as a novated lease.
- **Refinance and renovate the residual amount for a further term.** You will be able to continue salary packaging the lease however at the end of this lease term you will still have a residual amount owing (% of the finance amount).
- **Sell the vehicle and payout the residual amount** – either by private sale or hand the vehicle back to the financier to sell on your behalf. If the vehicle sells for less than the residual amount you will be liable for any shortfall.

If you choose to renovate the lease, AccessPay will assist you with this process.

Frequently Asked Questions

- **What happens if I leave my employer?**
If you leave your current employment, the novation no longer applies, and you are responsible for making the finance payments directly to the financier. Subject to your new employer's policy, you are able to renovate your lease and continue to salary package under the same finance arrangement.
- **Can I have a novated lease on a used vehicle?**
Yes, you are able to have a novated lease on a used vehicle; however at the end of the lease term, the vehicle must be less than 8 years old. You will also need to source the vehicle yourself.
- **Can I have a novated lease on a ute?**
You are able to have a novated lease on a ute, however if the ute has a payload of over 1000kg, you will need to keep a logbook to determine a business use percentage, as the vehicle's FBT value will need to be calculated using the operating cost method.

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- **Can I use my own insurance?**
Yes, you are able to use your own insurance and salary package this expense. Under this arrangement, you will need to make the payments directly yourself, and receive a reimbursement from your salary packaged funds.
- **I already have a vehicle – can I novate this?**
You can only novate an existing vehicle if the finance on the vehicle fulfils legislative requirements for a novated lease. These are listed on page 1 of this fact sheet.
- **I have a vehicle to trade-in. Can I use this to reduce the purchase price of the car?**
Under a novated lease arrangement, the total purchase price of the vehicle must be financed – you are unable to reduce the purchase price of the vehicle with a trade-in or deposit. Any funds for these purposes will be returned to you by the dealer upon settlement.
- **I am going on unpaid leave – what happens to my lease payments?**
You are able to salary package an additional amount before your leave; AccessPay will then continue making your lease payments until the extra funds have been exhausted. At this time, you will need to make the payments directly to the leasing provider.
- **What if I don't want the car anymore? Can I return it?**
You are able to payout the lease early; however you will be charged all of the outstanding finance payments and interest for the remaining term of your lease. It is best to choose a shorter term initially if you would regularly change vehicles.
- **What happens to any running cost funds in my maintenance account that I don't use?**
At the end of your lease term, your maintenance account with the leasing provider is reconciled, and any leftover funds are returned to your AccessPay account. In order to return the funds to you tax-free, they will need to be salary packaged towards an expense or another exempt item. It may also be possible to return the funds to your payroll to be taxed and returned to you if you do not have any expenses to allocate them to (subject to your employer's policy).
- **Will I need to do a credit check?**
As a novated lease is a finance arrangement, and you are responsible for the finance payments, the financier will conduct a credit check before finance of the vehicle is approved.
- **I've heard that I don't have to pay any GST – does that mean I can take off the GST from the purchase price of the vehicle?**
The purchase of the vehicle will still include GST, however you will not need to salary package the GST on the lease payments (subject to your organisation's salary packaging policy).

Please note: Information, advice or guidance provided in this fact sheet, is general in nature and provided without reference to your organisation policies or your circumstances. It is not and should not be considered to be organisational or personal advice to you. Please contact your accountant, tax agent or legal adviser to determine how the information in this fact sheet may apply to your circumstances. Alternatively you can contact AccessPay with any queries about how the information in this fact sheet may apply to your circumstances.