Novated Lease Factsheet

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What is a Novated Lease?

Novated Leasing is a method of salary packaging a car, under which an employee leases a car, and the employer agrees to take on the employee's obligations under the lease, paying the monthly lease rentals from the employee's pre-tax income.

Novated Lease is the most common form of salary packaging a car.

How does a Novated Lease Work?

A Novated Lease is a three-way agreement between an employer, employee and finance company whereby the employee enters into a Car Lease (Finance Lease) with the financier and the employer agrees to take on the employee's obligations under the lease.

Under this arrangement, the employer pays the monthly lease rentals on behalf of the employee and provides the vehicle for the employee to use as part of their salary packaging arrangement.

If employment ceases for any reason, or the lease agreement is finalised, the Novation ceases, and the obligations assumed by the employer revert back to the employee.

Benefits of a Novated Lease for Employees

- Choice - you can choose the car that best suits your needs
- Control - you control the car, including care and maintenance
- Portability - you can take the vehicle and lease with you if you change jobs
- Tax effective - repayments are made out of pre-tax income, so you may require a smaller portion of your income to run the vehicle
- You retain any equity built up in the vehicle, not your employer
- All the other regular benefits of a Car Lease (Finance Lease)

Benefits of a Novated Lease for Employers

- No residual risk
- No excess vehicles if an employee leaves their employment
- Employer can provide a more attractive remuneration package, and therefore attract the employees they want
- Reduced administration time and costs (compared to company cars)
- Reduced on-costs such as Payroll Tax and Workcover premiums

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Tax Implications of a Novated Lease

Under a Novated Lease, the finance company and employer can claim an Input Tax Credit (ICT) for the GST included in the purchase price of the vehicle and the monthly lease payments.

The benefit of these Input Tax Credits is passed on to the employee, essentially making a Novated Lease GST-free (subject to a few limits).

At the end of the lease or in the event of early termination, GST is charged on the residual value of the lease, and as the Novation reverts back to the employee, the employee is responsible for paying the GST on the residual.

Fringe Benefits Tax (FBT) is also payable on the benefit provided through the Fully Maintained Novated Lease, and this expense is normally passed on to the employee.

The amount of FBT depends on the kilometres travelled each year;

- the higher the kilometres, the lower the FBT
- although this FBT can be offset through employee contributions to the running costs of the vehicle (the Employee Contribution Method (ECM).

Alternatively, FBT will not be applicable if the Vehicle is a Business use Vehicle /Tool of Trade that is a Van or Utility with 1 tonne or > towing capacity.

What happens if I leave my employer during the lease

Should you leave your employer, your employer's novation agreement with the financier concludes.

A full reconciliation of the running costs, up to the lease end date will be carried out, with any surplus or shortfall being settled in your pay by your employer.

Pro-rata FBT will also be settled prior to departing your employer.

What happens next?

- Subject to your new employer's agreement, arrange for a new novation agreement with them, or
- Continue to pay your monthly lease rentals, under your finance lease agreement (vehicle running costs will not be included in this payment), or
- Pay out the lease and make an offer to purchase the vehicle, or
- Return the vehicle to the lender to sell and any profit or loss realised from the sale after pay out of the lease will be passed on to you. An informed decision is always the best decision.

FOR MORE **INFORMATION**

If you'd like more information on any of the above items, please contact us today.

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