

Motor Vehicle Recipient Payment Method Fact Sheet



This Fact Sheet provides information on the benefits of using after-tax dollars to eliminate Fringe Benefits Tax (FBT) when salary packaging a motor vehicle via a novated lease.

Disclaimers and Disclosures

The provisions of this Fact Sheet and the benefits of packaging your salary using Selectus are subject to the provisions of your employment contract and your employer's policy regarding remuneration packaging.

This Fact Sheet is based on taxation and other laws that are current as at 1 July 2009. It contains general information only which is based on the continuance of present laws and rulings and their interpretation.

The information in this Fact Sheet is not intended as professional advice. You should obtain independent legal and financial (including taxation) advice on salary packaging as it affects your individual circumstances.

Applications must be approved by the Leasing Company or Fleet Manager concerned.

What are the options employers have for managing FBT liability? How is the 'post tax' amount determined?

A. Adopting the 'FBT Deduction Method', where the employer deducts Fringe Benefits Tax and all motor vehicle costs from the employee's pre-tax salary. At the conclusion of the FBT year, sufficient deductions should have been made from the employee's gross salary to offset that employee's FBT liability.

B. Adopting the 'Recipient Payment Method', where the employer makes a pre-tax deduction and a post-tax deduction from the employee's salary. Together these amounts make up the lease payment and total running costs of the employee's salary packaged motor vehicle. For all employees earning less than \$180,000 gross taxable income, this method will increase the net benefit of salary packaging a motor vehicle.

For employees earning in excess of \$180,000 gross taxable income, both above methods will result in around the same benefit when salary packaging a motor vehicle.

Your motor vehicle will have what is called an 'FBT Value'. This is calculated by multiplying the 'Base Value' of your motor vehicle by the 'Statutory Fraction', which is a percentage given by the ATO and varies according to how many kilometres you will travel in an FBT year (1 April to 31 March).

Example:

John wishes to salary package a new motor vehicle which costs him \$35,000. As John would not pay FBT on the stamp duty, registration and third party insurance, we first deduct these amounts from the \$35,000 purchase price.

Let's say the total of stamp duty, registration and third party is \$2,000, we deduct this amount from the \$35,000 purchase price. This gives us the 'Base Value' of \$33,000.

John has told us he will travel 20,000 kilometres per annum, the 'Statutory Fraction' for this range of travel is 20% (see table on next page for kilometre bands). Vehicle is held for full FBT year.

Therefore the 'FBT Value' of John's motor vehicle would be:

\$33,000 (Base Value) multiplied by the 'Statutory Fraction' of 20% = \$6,600.

If John pays \$6,600 towards his running costs of his vehicle each FBT year from 'Post-Tax' dollars, he will pay no FBT.

Example (Indicative only)
Gross Taxable Salary: \$63,000

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Description of benefits packaged

- You have a \$25,000 car (fully maintained)
- Leased at \$7,236 per annum plus running costs of \$3,700 per annum.
- You travel 15,000kms in an FBT year.
- Your employer is able to claim the input tax credits (GST) and passes them on to you.

**Agencies
 classified
 as 'Full FBT
 Employer'**

	<u>Car not packaged</u>	<u>Leased car packaged</u>	<u>Leased car packaged</u>
	<i>you pay for the designated items from post-tax income</i>	<i>The same items are paid for from pre tax salary including paying FBT</i>	<i>the same items are paid for from pre and post-tax salary</i>
Gross Salary	\$63,000	\$63,000	\$63,000
FBT	\$0	-\$4,800	\$0
Car Lease and running costs pre-tax	\$0	-\$10,936	-\$5,936
ITC (return of GST) pre-tax		+\$994	+\$539
Gross Taxable Salary	\$63,000	\$48,258	\$57,603
Tax (including Medicare levy)	-\$13,728	-\$8,788	-\$11,908
Car Lease and running costs post tax	-\$10,936	-\$0	-\$5,000
Net Cash after motor expenses	\$38,336	\$39,470	\$40,695
Annual Net Packaging Benefit	Nil	\$1,134 pa	\$2,359 pa
Reportable Fringe Benefits	\$0	\$9,346	\$0

NOTES:

This example is indicative only. You should clarify any question/s you may have regarding this example by consultation with an accountant, financial adviser or Selectus consultant.

Recipient Payment Method resulted in an increased annual net benefit of \$1,225 (Additional \$3,675 over 3 years) over the FBT payment method. Travelling over 25,000 kms per annum will result in a higher net benefit. An administration fee is payable to Selectus fortnightly from your pre-tax salary.



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Detailed discussion of the Recipient Payment Method

'Selectus' trained consultants can calculate the exact amount of Recipient Payments required so that the deductions from the employees post tax salary will offset the FBT liability exactly (if the employee's actual kilometres are consistent with the estimated kilometres, i.e. they fall into the same statutory fraction category). This method is set up when the employee establishes their package and is managed through 'Selectus' and InfoPay.

It is very important that employees ensure their motor vehicle travels their estimated kilometre range each FBT year. There are 4 bands of kilometre ranges that attract different 'Statutory Fractions'. These bands are used to calculate the amount of 'Post Tax' dollars required to eliminate Fringe Benefits Tax. Doing less kilometres in an FBT year than those estimated at the time of setting up the salary package can result in an FBT liability for the employee at the end of the FBT year.

The 4 bands for kilometre ranges and their Statutory Fractions are:

Kilometre per FBT year	Statutory Fractions
0 – 14,999	26%
15,000 – 24,999	20%
25,000 – 40,000	11%
40,001 +	7%



As an example, let's look at the difference in FBT liability where an employee estimates they will travel 15,000 kilometres in an FBT year, but only travel 14,000 kilometres. The 'Base Value' of the motor vehicle salary packaged is \$25,000.

From the above table the Statutory Fraction for travelling 15,000 kms is 20%, where the Statutory Fraction for travelling 14,000 kms is 26%.

If we have estimated the 'Post Tax' Recipient Payment using 20% (15,000 kms pa), we will not have collected enough 'Post Tax' dollars to totally eliminate FBT.

The 'Post Tax' amount collected per FBT year to eliminate FBT travelling 15,000 kms is \$5,000 (\$25,000 X 20%) where the 'Post Tax' amount required to eliminate FBT when the vehicle only travels 14,000 kms is \$6,500 (\$25,000 X 26%).

This means there would be a shortfall in the amount collected, which the employee would have to fund at the end of the FBT year.

GST is paid on the post tax deduction which the 'Selectus' system calculates on the employer's behalf. This amount is deducted from the employee's pre-tax salary and the employer pays this amount to the ATO. 'Selectus' provides regular GST reporting to assist employers in this regard.



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Remember!

It is very important that you complete the End FBT Year Declaration and return this to Selectus ASAP or you may pay more FBT than you should.

Please read Motor Vehicle FBT Year End Fact Sheet for the year end process.

Reportable Fringe Benefits

Reportable Fringe Benefits obligations apply to all employers. In other words, a package amount will be grossed up and included as your Reportable Fringe Benefits on your Payment Summary where applicable.

The Recipient Payment Method allows the employee to reduce the Reportable Fringe Benefits related to the motor vehicle to zero, assuming employees travel within their estimated kilometre range.

What happens at the FBT year end?

'Selectus' will provide employers with detailed FBT year end reporting, this is based on the information provided through the 'End FBT Year Declaration' collected in the 'Selectus' system.

Information collected on the 'End FBT Year Declaration' includes:

- Odometer reading at 31 March (required to get actual annual kilometres travelled each FBT year)
- Total of motor expenses paid for in cash and not reimbursed through salary package
- The number of days the vehicle was unavailable for private use by the employee. This will include days where the employee is on holidays – conditional upon the vehicle being located at the employer's premises and the key's to the vehicle being held by the employer – or where the vehicle is being repaired or serviced (must be entire days)

How can your packaging benefit be maximised?

Every individual's situation is unique. 'Selectus' consultants can model your package with the objective of assisting you to maximise your financial benefit.

'Selectus' also presents Employee Seminars at your employer's location and it is recommended that you attend these presentations.

You can also go onto the Selectus web site, www.selectus.com.au and enter your employers log-on and password. This will allow you to access the following information:

- Salary packaging calculator
- Salary packaging fact sheets
- Salary packaging presentation

Once you commence salary packaging you will be given your own log-on and password and you will also be able to access the following:

- Employee payment report
- Motor vehicle report
- End of FBT year declaration

You have a number of alternatives with regard to putting your package in place:

- Call Selectus and ask for a free package comparison
- Call Selectus and ask for a consultant set up your package
- See your own adviser who can assist you to set up your package



Selectus



<http://www.selectus.com.au>