



PBI – CHARITY EMPLOYER MOTOR VEHICLE

FACTSHEET INFORMATION

BENEFITS OF PACKAGING A VEHICLE

Packaging your motor vehicle can lower your effective tax rate and assist in your cash flow management, giving you a greater net take-home pay. Many employees will benefit from salary packaging their motor vehicle. Your individual benefit is dependent on your marginal tax rate, the purchase price of your vehicle and the distance your vehicle travels each year.

What is a “motor vehicle” for salary packaging purposes?

- A “motor vehicle” includes new and secondhand cars, station wagons, panel vans, utility trucks or similar vehicles designed to carry a load of less than one tonne, and any other road vehicle designed to carry a load of less than one tonne or fewer than nine passengers. This is the definition of a motor vehicle used for FBT purposes.
- A salary packaged vehicle can be for personal use only or a combination of personal and business use and there is no limit on the number of vehicles you can salary package.
- A motorbike is not a car and will not receive concessional Fringe Benefit Tax (FBT) treatment unless the motor bike is used entirely for business use with minor and infrequent personal use. It will therefore not be effective to package a motor bike.
- A ute or panel van with a carrying capacity over 1 tonne is not a ‘car’ for salary packaging purposes and does not receive concessional tax treatment.

Why should I package my car?

Packaging your car can result in lowering your effective tax rate.

The costs of your packaged car are generally paid from your “pre tax” earnings giving you a greater take home pay when compared to paying for all motor expenses from your after tax dollars. As a PBI – Charity employee, you will be able to package your car within the exemption cap therefore pay no FBT

Packaging your car can also assist your cash flow management.

Acquiring a car involves a significant initial outlay as well as regular annual registration and insurance expenses. However, by packaging a fully maintained car you can spread out these costs throughout the year

Packaging your car also allows choice, flexibility and portability.

You can choose a car that meets your needs and use it in a manner that satisfies your requirements. With a novated lease you can generally retain your car if you change employers during the lease period and with a finance novated lease you can purchase the car at the end of the lease if you wish.

EXAMPLE (INDICATIVE ONLY)

Gross Annual Taxable Income \$65,000

Description of benefits packaged (All costs are GST inclusive)

- You have a \$30,000 car (fully maintained) which is leased at \$17,003 per annum which includes the lease payment and all other running costs.
- Vehicle is financed over a 3 year period.
- You travel 20,000kms in an FBT year.
- Your employer is able to claim the input tax credits and passes them on to you.

It is your responsibility to ensure that when you are comparing quotes from various leasing companies that you understand the details of each quote and ensure that you are comparing like figures. For example the quotes might vary as to whether the figures are GST inclusive or not; or that, for instance, the 36 months lease is paid with 34 payments i.e. 2 months deferred. In addition, you need to understand the difference between the FBT value of the car and the purchase amount. Please refer to the definitions provided for you throughout this Fact Sheet and the FBT Year End Fact Sheet.

You will be able to salary package an additional \$13,012 per annum into Full FBT items without incurring a FBT liability.

	Car not packaged	Leased car packaged
Fortnightly Salary (Gross)	\$65,000	\$65,000
Car Lease and running costs pre-tax	\$0	-\$653.96
ITC (return of GST) pre-tax	\$0	+\$59.45
Fortnightly Taxable Salary (Gross)	\$2,500	\$1,905.49
Tax (inc Medicare Levy)	-\$542	-\$334
Net Salary after motor vehicle expenses	\$1,304.04	\$1,571.49
Annual Net Salary Packaging Benefit	NIL	\$267.45 (per fortnight)

NOTE:

This example is indicative only. You should clarify any question you may have regarding this example by consultation with an accountant, financial adviser or Selectus consultant. An annual fee, which is also packaged, is payable to Selectus fortnightly from your pre-tax salary.

What are the lease agreements?

To package your car using Selectus you will need to lease your car using a novated lease arrangement.

What is a novated lease?

- A novated lease is simply a series of arrangements between the leasing company, your employer and you which transfers the obligation and rights under the lease to your employer, but enables you to retain control over the motor vehicle. Novated leases are very common in Australia.
- You need to arrange a lease with the finance company for the motor vehicle and then to enter into a novation agreement with your employer. Lease payments and other running costs are then deducted from your remuneration package.
- Your employer becomes the lessee of the car and provides it to you, the employee, for your unrestricted use. In other words, as part of your remuneration package the vehicle may be used exclusively by you, your partner or family members.
- The novation is current for the term of your lease unless you cease employment. If you cease employment with your current employer the novation will terminate and the lease obligations and rights will be transferred back to you.

What is a novated finance lease?

A finance lease is akin to purchasing goods by instalment payments. At the end of the lease you have the obligation to pay out the residual value. The residual value is usually 46.88% and 37.50% of the cost of the car for a 3 and 4 year lease respectively. This can generally be financed by the sale of the vehicle. Alternatively, you can purchase the vehicle from the Fleet Manager (for the residual value).

What payments do you make?

The payments under your novated lease will comprise:

- Periodic (monthly/fortnightly) lease payments which, like loan repayments, include both an interest and a capital component. These are the amounts that are packaged;
- With a novated finance lease, the **residual value**, which is a fixed percentage of the value of the purchase price of the car, plus GST, is payable at the end of the lease from after tax dollars. This component cannot be salary packaged.

TAX TIP!

The benefit of packaging a car will generally be greater the higher:

- Your income, and therefore the higher your marginal tax rate;
- The kilometres you travel in a FBT year, which will lower your statutory fraction (see “Statutory Formula” method below).

Who is responsible for operating costs and maintenance?

When salary packaging a motor vehicle, you will pay for the lease payment and all running expenses (plus FBT if applicable) from your salary.

What happens if I leave during the lease period?

If you leave your employer during the course of the lease the novation will be automatically terminated and the lease obligations will return to you.

Should your new employer also offer their employees the opportunity to salary package, you can organise to get a new Deed of Novation from your finance company and have this signed by your new employer. You can then continue to package the vehicle with the new employer.

What happens at the end of the lease?

A novated lease agreement ceases on termination of your employment or at lease end. This means that the residual responsibility becomes yours at the end of the lease.

Under a finance novated lease, at the end of the lease term the residual, plus GST, must be paid to the Lessor (Finance Company). This is often achieved by selling the car or trading it in and entering a new lease. You may make an offer to purchase the car for the residual value. The residual payment is your responsibility as the novation ceases on lease termination.

Should you decide to sell or trade in the vehicle at the end of the lease you would pay out the residual value from the sale price. Any funds left over from the sale, after paying out the residual amount is kept by you and is tax free.

What other matters need to be considered?

Salary packaged motor vehicles can either be new or second hand, usually up to 4 years of age.

What is the tax treatment of a packaged motor vehicle?

Fringe Benefits Tax

- The motor vehicle "benefit" will be subject to FBT. FBT is payable, if any, by your employer but will be charged against your remuneration package. You may structure your salary package to limit the FBT liability.
- FBT is calculated on the FBT taxable value of the benefit. The FBT taxable value of the car benefit can be calculated using one of two methods: Statutory Formula Method and Operating Cost Method.
- Each of these valuation methods will have a different resultant concessional tax treatment of your packaged car.
- If you hold a vehicle for a part FBT year or the vehicle is unavailable during the FBT year, it is essential that you read Motor Vehicle FBT Year End Fact Sheet.

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.

VALUATION METHOD 1.

STATUTORY FORMULA

The statutory method is the default valuation method used in relation to car benefits. Selectus Employee Benefits will apply this method to the packaging of your car unless you use the operating cost method.

The statutory formula valuation method calculates the FBT taxable value of the benefit based on the cost of the car and the distance travelled during the year. Note: that even if your vehicle is unavailable for part of the FBT year you still need to travel the nominated kilometres

The cost of a leased car is the value recorded in the lease, plus any non-business accessories (e.g. air conditioning, stereo). Business accessories, such as a mobile phone kit, registration and stamp duty charges are not included in the value for FBT purposes.

Where, at the beginning of the FBT year (1 April) the car has been held by the provider (your employer) for more than 4 years, the cost of the car for FBT purposes is reduced to two thirds of the value recorded in the lease. The cost of non-business accessories is not reduced.

Definition of FBT value or BASE value of a motor vehicle

FBT Value or Base Value of a motor vehicle is the amount that Selectus uses to determine the FBT liability on an individual motor vehicle. For a new motor vehicle the FBT value is the on the road cost of the motor vehicle minus stamp duty, registration and third party. For second hand motor vehicles it is purchase price minus stamp duty.

Financed amount

When salary packaging via a novated lease arrangement, the finance company can claim GST on the purchase price from the ATO via Input Tax Credits. This means the amount required to finance the salary packaged motor vehicle will be the on the road cost minus GST payable on the purchase price of the motor vehicle.

This can save you thousands of dollars on the purchase price of your motor vehicle.

Logbook requirements

No log books are required when using the Statutory Formula Method. However you will need to complete Selectus' End of FBT Year Declaration in which you will record your odometer reading at 31 March each year. (please read Motor Vehicle FBT Year End Fact Sheet)

TAX TIP!

The Statutory Formula method is appropriate when you will:

- Have no, or low, business usage; or
- Travel a high number of total kilometres during the year.

VALUATION METHOD 1.

STATUTORY FORMULA (CONT.)

Recent changes to statutory fractions

In the May 10, 2011 Budget, the Government changed the existing statutory fractions which are used to determine the amount of grossed up taxable value you will use from your \$30,000 grossed up tax free cap, when salary packaging your motor vehicle.

The reasons for making the changes are to bring everyone who salary packages a vehicle on to the same statutory fraction rate of 20%, no matter how many kilometres the vehicle travels in an FBT year.

As you can see from the table below, for those employees who are travelling over 25,000 kilometres per annum, the rates used each FBT year will increase over a period of 2 to 3 years until the rate reaches the required rate of 20%.

This means that each year the grossed up amount which is applied to your salary packaged vehicle will increase until the 20% rate is reached. From that point on your grossed up amount will remain the same each FBT year.

For those employees who are travelling under 15,000 kilometres per annum the recent Budget changes are very good news indeed! These vehicles were taxed at 26% and this has now been reduced to 20%, making salary packaging your vehicle even more tax effective!

For those employees who are travelling between 15,000 kilometres and 24,999 kilometres per annum, no changes were made in the May 10 Budget and you will remain on the statutory formula rate of 20%.

For all employees who have already set up their novated lease prior to the May 10, 2011 Budget, you will remain on your existing pre Budget statutory formula rate for the life of their current lease.

The FBT taxable value of the car benefit is calculated as follows:

BASE VALUE OF MOTOR VEHICLE **X** STATUTORY FRACTION

Number of kilometres travelled in an FBT Year	Pre May 10 2011 novated leases	New novated leases entered in to after 7.30 pm 10 May 2011			
		From 10 May 2011	From 1 April 2012	From 1 April 2013	From 1 April 2014
0–15,000 kms	26%	20%	20%	20%	20%
15,000–25,000 kms	20%	20%	20%	20%	20%
25,000–40,000 kms	11%	14%	17%	20%	20%
> 40,000 kms	07%	10%	13%	17%	20%

You will need to record your odometer reading at 31 March (the end of the FBT year) each year and whenever you acquire or dispose of a packaged car.

VALUATION METHOD 2.

OPERATING COST METHOD

The operating cost method is an alternative valuation method to the statutory formula. If you wish to use this method you will need to contact Selectus and complete the necessary election form.

Some employers do not allow their employees to use the operating cost method, so please check with your employer first.

The operating cost method works when the percentage of business use of the vehicle results in less FBT being paid when compared to using the statutory formula method.

The operating cost method calculates the FBT taxable value of the benefit based on the total expenditure in relation to the vehicle for the year that was used for personal use.

Operating costs include lease payments (GST Inclusive), registration, insurance, servicing, fuel etc. Parking, repair expenses covered by insurance and the cost of your driver's licence are not included in operating costs.

The FBT tax able value of the benefit is calculated as follows:

TOTAL OPERATING COSTS

X

PRIVATE USAGE PERCENTAGE

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EMPLOYEE POST TAX RECIPIENT CONTRIBUTION

Logbook requirements

- When using the Operating Cost Method you must keep a logbook for a continuous period of at least 12 representative weeks of car usage in the first year that the benefit is provided. A new 12 week logbook must be kept at least every five years, or more often, if usage patterns change. A new log book must be kept for each motor vehicle salary packaged, you cannot use a log book from a previous vehicle.
- The logbook must record each business journey in the car; detailing the date that the journey began and ended, the odometer reading when the journey began and ended and the purpose of the journey.
- Travel to and from work is not regarded as business travel.
- Odometer readings need to be taken at the beginning and end of the logbook period.
- Private journeys do not have to be recorded.

Reportable fringe benefits

Normally a packaged car will give rise to a reportable fringe benefit.

GST

GST will be payable on your running expenses. Your employer will be able to claim an input tax credit for any GST on the pre tax portion of the lease payments and operating costs. Your employer will be able to claim input tax credits and then pass them back to you.

TAX TIP

The operating cost method is appropriate when you have a high level of business usage.

You will need to keep a logbook to substantiate your business usage.

SALARY PACKAGING A MOTOR VEHICLE – CHECKLIST

PREPARATION AND SELECTING A MOTOR VEHICLE

ACTION	EXPLANATION
<p>Collect, read and understand the following information:</p> <ul style="list-style-type: none">• Information available on the Selectus website: www.selectus.com.au• The salary packaging section of your internal policy document• Selectus Motor Vehicle Fact Sheet	<p>If you salary package any part of your salary you will have certain responsibilities of which you must be aware.</p> <p>Importantly salary packaging does not benefit everybody at all times. It is your responsibility to ensure it is right for you!</p>
<p>If you are comfortable with the concepts of salary packaging and wish to continue go to Step 3.</p> <p>If not re-read the above information or seek the advice of a professional.</p> <p>Contact Selectus for further advice.</p>	<p>It is important that you understand salary packaging and your responsibilities.</p> <p>Using professional advice may incur a fee but it will give you peace of mind, ensure salary packaging is right for you and allow you to maximise your benefit.</p>
<p>Select the type of motor vehicle and its features you wish to purchase.</p>	<p>You choose the car you want.</p>
<p>Request quotes for your motor vehicle from vehicle suppliers or Selectus. On 1300 651 117</p>	<p>For more information go to www.selectus.com.au</p>

DETERMINE IF YOU WILL BENEFIT FROM SALARY PACKAGING THE MOTOR VEHICLE

ACTION	EXPLANATION
<p>Once you have accepted a motor vehicle quote and you wish to investigate if salary packaging will be of benefit you must contact your HR Team to request a letter of authorisation from your employer allowing you to salary package.</p>	<p>You will not be able to commence salary packaging without receiving this Agreement / Authority Letter which is essential for Selectus to proceed with your salary package.</p>
<p>Identify if salary packaging is suitable for you by either: Seeing a Selectus Consultant or your own accountant/financial adviser.</p>	<p>You can also ring Selectus for a free Salary Packaging Comparison. The generic website has calculators that give a close estimation of the expected benefit.</p>
<p>Agree on the following:</p> <ul style="list-style-type: none"> • The vehicle you will package • How you will finance the vehicle • Where you will seek your finance • The structure of your salary package • The number of kilometres you will travel 	<p>Selectus Consultants will make sure you maximise your benefit while ensuring you understand exactly your responsibilities.</p> <p>The number of kilometres you travel within an FBT year will be used to calculate your FBT liability at the end of the FBT year. You must accurately predict and monitor how far you are going to travel in an FBT year (1 April – 31 March)</p>
<p>Once you have received your finance documentation send the following documentation to the HR Team for employer acknowledgment:</p> <ul style="list-style-type: none"> • Novation Agreement and schedule signed by you • A copy of the purchase invoice of your vehicle,if available 	
<p>Complete the following Selectus forms:</p> <ul style="list-style-type: none"> • Client Details form • Package Details form • Motor Vehicle Package Details form • Financial Declaration form or waiver to seek financial advice form, if applicable • Lease Schedule • A copy of the purchase invoice of your vehicle • Fuel Card Application, if applicable 	<p>Selectus requires the purchase invoice of the motor vehicle to verify the purchase price of the motor vehicle.</p> <p>It is this figure that is the basis of all Fringe Benefits Tax calculations.</p> <p>If using a Selectus Consultant, all Selectus forms will be completed for you and substantiation documents collected from you.</p>

PBI – CHARITY EMPLOYER MOTOR VEHICLE

If not using a Selectus Consultant, you will need to send all of the relevant documentation through to Selectus. You will also need to sign the Selectus Authorisation Form. If using a Consultant they will assist you to finalise your salary package and create for you a Selectus Authorisation to sign.

Please send a photocopy of your documents to: Locked Bag 4000, Melbourne, Victoria, 3001.

Or fax to Selectus on (03) 8615 4911.

Check the Selectus Authorisation, as it shows in detail how your package has been set up by Selectus and the payments it will make on your behalf. Sign the Selectus Authorisation and return it to your Consultant or Selectus.

Selectus can only instruct your payroll team to deduct money from your salary after Selectus has received all the relevant documentation and the signed Authorisation.

Selectus will obtain approval from your employer and update the Selectus administration system. If all documentation and signed authorisations have been received Selectus will commence making payments.

Even if funds have been deducted from your salary no payments will be made until all documentation and the authorisations have been received.

Selectus will notify your employer to commence deductions from your salary.

You will receive a PIN and password to the Selectus website to allow you to monitor your salary package.

Part of your responsibility is to monitor your package and ensure you travel the required kilometres in an FBT year.

If you do not receive this communication please contact Selectus.

Please contact Selectus at any time you believe you will not do the kilometres estimated at the start of the lease.