



fbt & your
novated
lease



don't forget to add FBT to your regular maintenance schedule

Follow these 3 easy steps to maintain your car's FBT.

1. always quote your car's odometer reading whenever you use your fuel card.

We use this odometer data to track your FBT liability. If you don't provide an accurate odometer reading when purchasing fuel we won't be able to tell you if you're on target to make your nominated FBT bracket. Your employer also requires you to provide this as part of your novated lease.

2. if you're not on target to travel the minimum number of kilometres in your nominated FBT bracket, you must contact us.

If you are not on target to meet your bracket you will need to contact **nlc** to lower your target and re-cost your car deductions. If you don't notify **nlc** and miss your bracket then you will incur additional FBT that your employer will recover from you.

3. at the end of the FBT year you must provide us with your car's odometer reading.

The FBT year is the 12-month period from 1 April to 31 March. You need to declare your odometer reading as at 31 March. We will contact you prior to 31 March to inform you of the procedure for lodging your odometer declaration.

FBT and your novated lease

lifting the hood on FBT

why is FBT payable?

Cash and non-cash benefits are treated differently under the taxation system. Income Tax is payable on cash benefits, and Fringe Benefits Tax (FBT) is payable on most other types of non-cash or employee benefits.

A salary packaged car is considered a fringe benefit because a car leased by your employer is made available for your private use.

The term “novated lease” simply describes the way in which your car benefit is provided to you. **nlc** purchases a car and agrees to lease it to you under a lease agreement. The lease agreement is then substituted for a novation agreement and your employer assumes responsibility for the obligations created under the lease agreement. While the novation agreement is in place your employer is considered to be leasing the car. The residual value liability of the lease always remains with you.

All costs associated with the car, including additional FBT, will be deducted from your salary by your employer.

how is the taxable value of a car fringe benefit calculated?

A car fringe benefit is one of the few salary packaging items that receives concessional taxation treatment.

The taxable value of a car fringe benefit is calculated by either using the Statutory Formula Method (Employee Contribution Method is part of the Statutory Formula Method) or the Operating Cost Method.

The method elected depends on your employer’s car policy and the percentage of business use.

If you mainly use your car for private travel, using the Statutory Formula Method will produce a lower taxable value than using the Operating Cost Method. It is important to remember that in most instances travel to and from work is considered private travel, not business use. The Statutory Formula Method makes no distinction between kilometres travelled for private purposes and kilometres travelled for business use.

If there is a high percentage of business use, generally over 75%, and only incidental private travel, the Operating Cost Method is used on some occasions to calculate FBT. Only a very small percentage of our clients use the Operating Cost Method and this topic is not covered in this information sheet.

If you would like to request information on the Operating Cost Method please e-mail to customersupport@nlc.com.au

Special note to people using Employee Contribution Method*

If you travel more than expected during the FBT year, and move up an FBT bracket, you will have contributed too much salary in after-tax dollars and reduced the tax effectiveness of packaging a car. This does not mean you’re entitled to a refund at the end of the FBT year. Please speak to your HR adviser to confirm your company’s policy on surplus post tax contributions.

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lifting the hood on FBT

Statutory Formula Method

The Statutory Formula Method is given by the following equation:

$$\text{Taxable Value} = \frac{(A \times B \times C) - E}{D}$$

A = the base value of the car

B = the statutory percentage

C = the number of days in the FBT year when the car was used or available for the employee's private use

D = the number of days in the FBT year

E = the employee contributions (your post tax deductions)

By understanding each element of this equation you will understand how to manage your FBT.

the statutory formula explained

A = Base value

The base value is the GST inclusive purchase price, less non-taxable on road costs.

The same base value must be used for your car until your employer has held the car for four full FBT years. After this time your employer is entitled to a once-only reduction to two thirds of the car's initial base value.

B = Statutory percentage

The statutory percentage applied depends on the number of kilometres travelled during the FBT year. The FBT year is the 12-month period from 1 April to 31 March.

At the beginning of your novated lease we ask you to estimate how many kilometres you travel in a year. The number of kilometres you actually travel during the FBT year determines the statutory percentage (refer to table below). If your actual kilometres are less than your budgeted kilometres there will be a shortfall and you will have to pay more for your car's FBT.

The table below shows the statutory brackets and the corresponding statutory percentages:

Distance travelled during the FBT year (1 April – 31 March)	Statutory rate (multiplied by the cost of the car to determine a person's car fringe benefit)				
	Existing contracts	New contracts Entered into after 7:30pm (AEST) on 10 May 2011			
		From 10 May 2011	From 1 April 2012	From 1 April 2013	From 1 April 2014
Less than 15,000 km	26%	20%	20%	20%	20%
15,000 to 24,999 km	20%	20%	20%	20%	20%
25,000 to 40,000 km	11%	14%	17%	20%	20%
Over 40,000 km	7%	10%	13%	17%	20%

Please note: the statutory rate increase each year for all contracts that commenced after 10 May 2011 and who drive more than 25,000 ks per year. This will increase the amount of FBT payable on these vehicles.

*The FBT year is the 12-month period from 1 April to 31 March.

FBT and your novated lease

the statutory formula explained *continued*

C = Number of days benefit was provided

If your novated lease is not in place for a full FBT year*, we need to work out how many kilometres you would have travelled if the car was leased for a full year.

To do this the following formula is used.

$$(M \times N)$$



M = the number of kilometres travelled in the period the car was leased

N = the number of days in the FBT year (ie 365 or 366 in a leap year)

O = the number of days your employer held the car for during the FBT year

O = Days unavailable

Your car will only be considered to be unavailable for private use if it is kept in safe storage away from your place of residence. During this time, neither you nor an associate may have custody and control over the car, nor can you use the car for private purposes. If you are claiming for days unavailable you will need to provide this information to your employer.

More information about days unavailable can be found at www.nlc.com.au/forms

D = Number of days in an FBT year

There are 365 days in an ordinary FBT year and 366 days in an FBT when it's a leap year.

E = Employee contribution

An employee contribution is any car operating cost paid directly by you in after-tax dollars, for which you are not reimbursed.

An employee contribution reduces the taxable value of the car fringe benefit by the amount of the contribution.

When using the Employee Contribution Method, this is the after-tax component.

Gross-up

Once the taxable value of the car fringe benefit is established, it is grossed-up to reflect the gross salary that would have to be earned to purchase the benefit from after-tax dollars. The gross-up rate assumes salary is being earned at the highest marginal tax rate and includes the Medicare Levy.

There are two gross-up rates:

Type 1 (2.0647 gross-up)

Employers able to claim input tax credits for any GST paid on expenses incurred on the car.

Type 2 (1.8692 gross-up)

Employers unable to claim input tax credits for any GST paid on expenses incurred on the car.

The gross-up rate used depends on whether your employer is able to claim input tax credits for any GST paid on expenses incurred on the car.

Once the grossed-up taxable value is determined, it is multiplied by the FBT rate, which is currently 46.5%.

What if my travel patterns change?

If your travel patterns change, and you would like to adjust your nominated kilometre usage, please contact our Customer Support team. We may also need to vary the amount you are salary-sacrificing for fuel and maintenance. Customer Support can also assist you with questions relating to insurance, registration, and car expense reporting. Please contact Customer Support on 1800 643 044 or customersupport@nlc.com.au

*The FBT year is the 12-month period from 1 April to 31 March.



Employee Contribution Method

We use a variation to the Statutory Formula Method to calculate FBT for most employees. We call this variation the Employee Contribution Method (ECM). This method of FBT calculation provides a more tax-effective outcome for employees with a taxable income of less than \$180,001 per annum.

If you are using the ECM, we have calculated the taxable value of your car benefit and structured your salary sacrifice to include both pre-tax and post-tax contributions. The post-tax contributions reduce the taxable value of the car fringe benefit by the amount of the contribution.

Your employer deducts money from you in pre-tax and post-tax dollars and keeps track of your post-tax contributions.

Important note to people using the Employee Contribution Method (ECM)

With the ECM, if you miss your nominated bracket, it's likely you'll have to pay more FBT.

By the end of the FBT year, in order for your after-tax contributions to exactly match the taxable value of the car fringe benefit provided, you must have travelled enough kilometres to qualify for your nominated FBT bracket.

If you travel less than expected during the FBT year and not make your FBT bracket, an FBT liability will occur, so your employer will require additional salary deductions to cover the revised amount of FBT payable.

If you travel further than expected, overshooting your nominated FBT bracket, it's likely you'll have contributed too much in post-tax dollars and reduced the tax effectiveness of packaging the car. This does not mean you're entitled to a refund.

If you'd like further information regarding FBT, contact us on
1800 643 044 or customersupport@nlc.com.au

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