

fbt + your novated lease

a little simple house keeping



goes a long way...



a *Always quote your vehicle's odometer reading whenever you use your fuel or Fleet 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.

b *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 vehicle deductions. If you don't notify **nlc** and miss your bracket then you will incur additional FBT that your employer will recover from you.

C *At the end of the FBT year you must provide us with your vehicle'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.

things you should know



Why is FBT payable?

As part of your remuneration you have elected to take a non-cash benefit, in the form of a vehicle fringe benefit.

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.

The term “novated lease” simply describes the way in which your vehicle benefit is provided to you.

nlc purchases a vehicle 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 vehicle. The residual value liability of the lease always remains with you.

Remember, all costs associated with the vehicle, including additional FBT, will be deducted from your salary by your employer.

A novated lease vehicle is considered a vehicle fringe benefit because a vehicle leased by your employer is made available for your private use.

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

Total kilometres travelled during the FBT year (Statutory Bracket)	Statutory Percentage
Less than 15,000	26%
15,000 to 24,999	20%
25,000 to 40,000	11%
Over 40,000	7%

How is the taxable value of a vehicle fringe benefit calculated?

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

The taxable value of a vehicle 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 vehicle policy and the percentage of business use.

If you mainly use your vehicle 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 & reduced the tax effectiveness of packaging a vehicle. You will also not be entitled to a refund at the end of the FBT year.

** Employees using the Employee Contribution Method contribute both before-tax and after-tax salary to the cost of their novated lease vehicles. Please speak to your HR adviser to confirm your company’s policy on surplus post tax contributions.*

Have your travel patterns changed?

If your travel patterns change, and you would like to adjust your nominated kilometre usage, please contact our Customer Support department. 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 vehicle expense reporting.

Please contact Customer Support on: Phone 1800 643 044 Email customersupport@nlc.com.au

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 vehicle

B = the statutory percentage

C = the number of days in the FBT year when the vehicle 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.

A = Base value

The base value of your vehicle relates to the vehicle's purchase price.

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

You can access information about your vehicle's FBT as part of your online account.

Reduction in Base Value

The same base value must be used for your vehicle until your employer has held the vehicle for four full FBT years. A full FBT year is any year where the vehicle is held from 1st April to 31st March. After this time your employer is entitled to a once-only reduction to two thirds of the vehicle'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 on page 3). If your actual kilometres are less than your budgeted kilometres there will be a shortfall and you will have to pay more for your vehicle's FBT.

how things work



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 vehicle was leased for a full year.

To do this the following formula is used:

$$\frac{(M \times N)}{O}$$

M = the number of kilometres travelled in the period the vehicle 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 vehicle for during the FBT year

Days Unavailable

Your vehicle 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 or control over the vehicle, nor can you use the vehicle for private purposes.

If you are claiming for days unavailable you will need to provide this information to your employer.

There is more information about Days Unavailable on our website www.nlc.com.au/novated/forms

D = Number of Days in FBT year

There are 365 days in an ordinary FBT year and 366 days in a leap year.

E = Employee contribution

An employee contribution is any vehicle 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 vehicle fringe benefit by the amount of the contribution.

For employees on Employee Contribution Method this is your after-tax contribution.

Gross-Up

Once the taxable value of the vehicle 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. 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 vehicle.

Type 1 (2.0647 gross-up)

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

Type 2 (1.8692 gross-up)

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

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

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 \$150,001 per annum.

If you are using the Employee Contribution Method we have calculated the taxable value of your vehicle benefit and structured your salary sacrifice to include both before-tax and after-tax contributions.

The after-tax contributions reduce the taxable value of the vehicle fringe benefit by the amount of the contribution.

Your employer deducts money from you in before-tax and after-tax dollars and keeps track of the value of your after-tax contributions.

If you are using the Employee Contribution Method there is no need for you to inform your employer, or us, of the after-tax contributions you have made to your novated lease vehicle.

Important note to people using the Employee Contribution Method

With Employee Contribution Method if you miss your nominated bracket you will 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 vehicle 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 you don't make your FBT bracket, there will be an FBT liability. You will not have salary-sacrificed enough funds to cover the additional amount of FBT payable. Therefore your employer will need to deduct extra funds from your salary.

If you are using the Employee Contribution Method and you travel further than expected, and move outside your nominated FBT bracket, you will have contributed too much salary in after-tax dollars and reduced the tax effectiveness of packaging a vehicle. You will also not be entitled to a refund at the end of the FBT year

If you would like further information regarding FBT, please contact Customer Support via phone on 1800 643 044 or email customersupport@nlc.com.au

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