



Novated Leasing
FAQs

The information in this document has been compiled using the questions we are commonly asked about **nlc** novated leases and associated products.

Why choose an **nlc** novated lease?

An **nlc** novated lease can make running your car easier and more cost effective. You agree to forgo some of your salary in return for a maintained car, some of which you can pay for in before-tax dollars. **nlc** uses your regular deductions to pay for your car's running costs including the finance component, fuel, maintenance, registration and insurance.

Are there any benefits other than tax benefits?

The benefit our customers value almost as much as the tax savings is the convenience of an **nlc** novated lease.

When you have an **nlc** novated lease you don't need to pay cash for your car expenses. We provide you with a card that is used to pay for fuel and maintenance. Your regular deductions include an allowance for registration and insurance so when they fall due **nlc** will pay them for you. There are no inconvenient lump sum payments.

We can also take all the leg work out of negotiating a competitive price for your new car.

So how does a novated lease work?

A novated lease is a three party agreement between you, your employer and **nlc**.

You enter into a finance lease with **nlc**; a second document called a novation agreement is used to transfer some of your lease obligations to your employer.

Once the novation is in place your employer deducts money from your salary and remits the money to **nlc** to pay for your car.

This allows your car to be treated like a company car which normally provides income tax and GST savings to you.

Who is a novated lease for?

If you answer yes to the following questions you are more likely to benefit from an **nlc** novated lease:

- » Do you want a car?
- » Do you need to borrow money to pay for the car?
- » Do you mainly use the car for private purposes?

I thought novated leases were for high income earners or high kilometre travellers?

These are two common misunderstandings about novated leases. You don't need to be a high income earner or drive high kilometres for a novated lease to be beneficial. Nor do you need to use your car for business purposes. Many employees across Australia benefit from an **nlc** novated lease.

When you speak to an **nlc** Vehicle Packaging Consultant they will provide you with a benefit assessment based on your income and estimated annual kilometres.

Can I choose my car?

Yes, although your employer's vehicle policy may have some restrictions on the type of car you can novate. Provided you adhere to your employer's policy requirements, you're free to choose a car that suits your needs.

You can choose:

- » A new car (our buying power means we can source a new car for you at a very competitive price),
- » A second-hand car (**nlc** may impose some minimum value guidelines; usually the purchase price of the car needs to be greater than \$10,000), or
- » A "sale and lease-back" of the car you currently own.

What does a novated lease cover?

nlc will put a budget in place to cover your car's:

- » Lease finance
- » Comprehensive insurance
- » Registration
- » Fuel
- » Maintenance (servicing, repairs and tyres)

The amount allocated for fuel and maintenance is based on your car's fuel consumption and the manufacturer's servicing guidelines.

What is Fringe Benefits Tax (FBT)?

When you salary package a car using pre-tax dollars, you reduce your taxable income, therefore reducing your PAYG income tax.

To offset some of this reduction in income tax, the Australian Tax Office (ATO) levies another tax called FBT on the benefit that has been provided to you.

The amount of FBT payable is based on your car's purchase price and your total annual kilometres. In most cases, your income tax savings will be greater than the FBT payable on your car.

To maximise your benefit on the amount you earn, the ATO allows the Employee Contribution Method (ECM).

This allows you to split your payments into pre-tax and post-tax amounts with the post-tax amount effectively offsetting the FBT liability. Our calculations depend on you making your nominated kilometre bracket.

Can I offset my car's carbon emissions?

nlc offers a product called **carbonreverse** which allows you to offset your car's carbon emissions for the term of the novated lease.

carbonreverse is paid using before-tax dollars providing an additional benefit.

How do I pay for fuel, maintenance and other car expenses?

Fuel: You will receive a multi-branded **nlc** fuel and maintenance card (**nlc** platinum card), accepted at major petrol stations and most independent sites. Use the merchant locator on the **nlc** website to find service stations in your local area.

You can use your **nlc** platinum card at participating Safeway/Woolworths sites to receive shopper docket discounts.

Your employer may also give you the option to use other fuel cards.

Maintenance: You use the same **nlc** platinum card for maintenance and servicing expenses. **nlc** provides a repair authorisation service to its customers. Your service provider must call **nlc** and outline the work that is to be carried out. We check to ensure that the parts and servicing are; reasonable, follow the manufacturer's specifications, should not be done under warranty and are competitively priced. Once approved, your service provider will invoice **nlc** directly

Registration: As soon as you receive your renewal from your State or Territory registration office you must forward a copy to **nlc**. This will ensure your renewal is processed on time. If less than 10 working days remain until your registration expires, you need to pay the renewal and then claim reimbursement from **nlc**.

Insurance: Your vehicle insurance payments will fit into one of the following three categories;

If you insure with **nlc** your insurance will be automatically renewed annually for the term of your novated lease while you remain with your employer.

If you are not insured with **nlc**, your renewals will be sent to you directly by your insurer. Forward a copy of your renewal to **nlc** at least 10 working days prior to the expiry date to allow for processing time. If less than 10 working days remain until your policy expires, you need to pay the renewal directly and then claim reimbursement from **nlc**.

If you're required to be insured under your company's insurance policy, speak to your company's representative regarding payments.

How do I claim expenses?

When you pay a car expense yourself, **nlc** will reimburse you for the amount you're out of pocket; claim forms are available from www.nlc.com.au

What car expenses can't be salary packaged?

The following items cannot be salary packaged:

- » Road tolls and e-TAG expenses
- » Fines and other infringement notices
- » Any accessories fitted to the car after purchase, e.g tow bar, roof racks etc.

How does **nlc** let me know how I'm tracking?

You will receive monthly emails with your account balance and FBT tracking information. You can also access information about your account online.

What if I'm not doing enough kilometres?

If you receive an email saying you're not on track with your kilometres, you need to either increase your rate of driving or contact **nlc** to lower your target and re-cost your car package.

What happens if I spend more than budget?

If during your lease you spend more than budget, **nlc** will contact you to increase your before-tax payment. If at the end of your lease your balance is negative, **nlc** will invoice your employer for the shortfall and your employer will recover any funds due from you directly.

What happens if I spend less than budget?

At the end of your lease, any unused funds are returned to your employer for reconciliation. Once any adjustments are made and PAYG tax is deducted, the balance is refunded to you.

What is a residual value?

The residual value is the pre-determined value of the car at the end of the lease contract including GST. Minimum residual values are set by the ATO.

Once the term of the lease has expired you have a contractual obligation to pay the residual value. You also have the option to re-finance the lease for a further term.

What happens when my residual value falls due?

Your residual value options are:

- » **Trade-in your car and enter into another novated lease on a new car.** You must pay any shortfall between the trade-in price and the residual value. You cannot use the value of any trade-in to reduce the amount financed on your next car as you are unable to have equity in a novated lease.
- » **Re-finance the residual value over a new term that suits you.**
- » **Sell the car privately or to a dealer and arrange for the purchaser to pay the residual value.** You must pay any shortfall between the sale price and the residual value.
- » **Make an offer to buy the car for the residual value, thereby acquiring ownership of the car and running it privately.**

What happens if I leave my employer?

The first thing you need to do is call **nlc** so we can talk to you about your options.

Payment for the car and your **nlc** platinum card are linked to your employer, so if you leave your company, your employer stops making payments and the **nlc** platinum card is cancelled.
continued overleaf...

FBT is calculated as of the date you leave your employer, so it's important you have travelled enough kilometres to make your bracket otherwise you'll be liable for additional FBT.

When you leave your employer you have three options:

- » Continue paying the monthly lease rentals and all of the car's running costs out of your own pocket including GST. The residual value will still fall due at the end of your lease;
- » Re-novate your lease with a new employer. **nlc** can assist you with this process; or
- » Pay out the finance lease early. Please refer to the next question for additional information on breaking the lease contract.

Can I break the lease contract?

When you enter into a novated lease, you agree to lease the car for a fixed period of time. It's important that you choose a lease term that reflects how long you wish to keep the car.

If you break the lease you will need to pay the remaining lease rentals (GST inclusive) and the residual value (GST inclusive).

You will also incur up to the equivalent of three monthly lease rentals as a penalty. FBT is calculated as of the date you pay out the lease; it's important you have travelled enough kilometres to make your bracket otherwise you'll be liable for additional FBT. Your running cost balance is not included in the pay out figure and is reconciled separately once **nlc** receives the last month's expenses for your car.

What do I need consider?

If you note the following points your novated lease should be hassle-free!

- » Choose a car that meets your needs
- » Select a lease term that reflects how long you want to keep the car
- » Nominate an FBT kilometre target that you can easily achieve, and if anything changes call **nlc** immediately
- » Use the monthly emails from **nlc** to monitor your account balance and FBT kilometre target
- » As soon as you receive any renewal notice forward a copy to **nlc** to ensure your renewal is processed on time.

Finally, if you miss your FBT target, you will need to pay an additional amount above your standard salary deduction. This will occur, even if you have made after-tax payments towards the car.

Important information to note:

Leasing represents a significant financial commitment and involves some risks and responsibilities that you must understand before entering into a leasing arrangement.

You are encouraged to seek independent financial advice to determine whether a novated lease is right for your financial situation.

If there is a change in the tax legislation, your salary sacrifice amount will be adjusted to reflect the increase/decrease in the amount of tax payable.

The concept of salary packaging assumes that all costs associated with the provision of benefits are borne by the employee. Your employer will not incur any additional cost as a result of your decision to enter into a salary packaging arrangement.

In the event that you cease to be employed for whatever reason, your employer's obligation to pay the lease stops and the obligation reverts to you.

For more information contact **nlc** on:
Telephone: 1800 643 044
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or go to www.nlc.com.au

Please call 1800 643 044
and our dedicated Vehicle
Packaging Consultants will
be happy to answer any
questions you have.

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