

If you are already in the market for a new or almost new car then salary packaging the car is likely to be the most tax effective way to hold the vehicle if your income is **above \$45,000 p.a.**

The benefit of packaging

Holding the car under a salary packaging arrangement means that you are effectively claiming a tax deduction for all the vehicle expenses including lease payments, fuel, insurance, and repairs.

This would normally **not** be available for an employee who just drives to and from work each day to the same office location and to personal locations as this is all viewed as private travel.

If your employer is registered for **GST** there is also the opportunity for reimbursement of **the GST input tax credits** in relation to your vehicle costs adding to the overall benefit. Note that this is dependent on your employer's treatment of the benefit.

Under the employee contribution method of assessing your car fringe benefit there is also **no Reportable Fringe Benefits amount** that needs to be reported on your tax return (which is an addition to your income for various income tests but doesn't get directly taxed).



Cost of packaging

As packaging a car creates a fringe benefit it is assessed separately under the **Fringe Benefits Tax (FBT) system** rather than through the normal tax system.

The fringe benefit that arises under a packaging arrangement should be reduced to nil by way of an employee contribution or FBT must be paid.

The majority of salary packaging providers will reduce the fringe benefit to nil by way of an employee contribution as the employee contribution is the most tax effective way to package for most people.

The employee contribution is usually made by reducing the amount of car expenses that are claimed as a tax deduction (i.e., pre tax) as part of the packaging arrangement. It can also be paid in cash from the employee to the employer, but this is not common.

Under the usual statutory formula method, the employee contribution/FBT payable is calculated based on the value of the car.

For this reason, vehicles priced between \$30,000 and \$40,000 regularly prove to be the most tax effective (although it will also depend on your annual car cost and your taxable income).

There will also generally be a packaging provider fee that is tax deductible as part of the package arrangement.

Requirements to be able to package

- ✓ The car must be held under a novated lease agreement.
This is a three-party agreement between you, your employer, and the leasing finance company.
- ✓ Your employer commits to paying the novated lease for the term of your employment with them which means that the employer effectively holds the vehicle which allows it to be packaged for you. Your name will still be noted as the owner of the vehicle, and it will be registered in your own name.
- i Please consult with your leasing provider but generally vehicles are only able to be packaged if they will still be less than 10 years old by the end of the lease period.

How to get started salary packaging a car

- 1 Approach your employer to confirm they will package a car
- 2 Choose the car that you want to purchase and go to the leasing provider for a benefit analysis
- 3 If beneficial, set up the lease through the leasing provider.

Payments for the leasing amounts will be automatically paid by your employer through your payroll and will be itemised on your pay slips.

Your leasing provider will usually inform your employer of the appropriate pre-tax and post-tax components for them to include – particularly in the case of fully maintained leases where the leasing provider also manages all the costs for the car.
- 4 Pay for vehicle costs as guided by your leasing provider. Each provider will have slightly different ways of doing this.

Many will issue you with a card that is used to pay for all vehicle expenses and will be tracked against a budget that is factored into your fully maintained lease payments.

These payments may be reconciled at FBT year end or at end of lease depending on the provider. Your provider/employer will provide guidance on this as appropriate.
- 5 At the end of the financial year your employer will report your car benefit as appropriate on your employer income statement.

Calculating your personal benefit vs cost

If packaging is available, employers, including government departments will generally work with one or more leasing providers to provide the benefit. Finance is done through this leasing provider, and they handle all the costs through various mechanisms depending on the supplier.

This provider is best placed to provide you with a benefit analysis for the car that you are thinking of purchasing and holding under a salary packaging arrangement as they will usually provide the analysis as a complimentary service.

i For most taxpayers packaging a vehicle will save you at least **\$2000 and \$3000 per year.**

We can review this analysis for you by booking in an appointment with one of our team.

Employer Requirement – Review of packaging arrangement by accountant or financial planner

If your employer requires you to get your arrangement signed off by an accountant or financial planner (or you would just like to) then our team can do this for you. Please contact us for details of cost and to book an appointment.