**Novated Leases and FBT**

A novated lease allows an employee to buy a car with employer assistance in the repayments for that car to a finance supplier. The employer agreeing to make the repayments out of the employee's pre-tax salary, in a salary sacrifice arrangement which reduces the employee's taxable income. A novated lease is therefore a three-way deal – between an employee, a financier, and the employer. The employee owns the car, and the employer agrees to make the lease repayments to the financier for that car as a condition of employment.

The lease revert to the employee if employment ceases. They keep the car and the employer does not have to purchase an extra vehicle.

The employer is entitled to a deduction for lease expenses where the car is provided as part of a salary sacrifice arrangement however it gives rise to the employer to a car benefit under fringe benefits tax (FBT) rules. Fringe benefits that fall under the FBT regime can be provided directly by the employer, by an "associate" of the employer, or by a third party who has an arrangement with the employer (in this case, the finance supplier).

A basic principle of salary sacrifice arrangements is that an employer is no better or worse off from having offered an employee a form of remuneration other than straight salary. As the leased car gives rise to an FBT liability, and as FBT is an employer's obligation, it is generally the case that any FBT amount arising as a result of the novated lease is charged back to the employee's salary package post-tax. The employer then remits the FBT to the Tax Office as required under the FBT rules.

The value of the car benefit (on which FBT is based) is taken on the actual purchase price of the car. Working out its taxable value for FBT can be done using two methods – the "statutory formula" method (the most commonly used), or the "operating cost" method.

With the "statutory formula" method, the amount of FBT levied is taken as a percentage rate of the total number of kilometres travelled during the year (both business and private), is now calculated at a flat rate of 20% of total kilometres. The “operating cost” method requires working out the total operating costs of the car (fuel, oil, servicing, etc) and reducing that total amount by the portion of private kilometres travelled (which attracts FBT) as compared to the total kilometres. It is most often used where business kilometres travelled are high, but is more complicated and requires more records (log books) to be kept and calculations to be made.

**Post-tax contributions to reduce FBT**
The tax liability that arises from the fringe benefit of salary packaging a car through a novated lease can be reduced by the employee making contributions towards, say, the running costs of the car from after-tax dollars.

It is important that these contributions come from after-tax salary, as every dollar so contributed reduces the FBT liability dollar-for-dollar up to the total amount of FBT payable. The maximum amount able to be contributed each year is equal to the statutory percentage of the vehicle's taxable value. By an employee doing this, rather than paying the FBT tax rate, which is 47%, they will be paying their own marginal rate which for many would be much less than that. The difference between the taxable value and the total cost of the benefit will not be subject to FBT or income tax.

**Novated car lease employer outcomes:**

* An employer agrees to the salary sacrifice arrangement allowing a staff member to obtain a vehicle through a novated lease
* Employer makes lease repayments to the finance supplier on behalf of the employee from their pre-tax salary
* The arrangement gives rise to an FBT liability, which the employer pays
* The amount of the FBT liability should have a nil dollar consequence for the employer if post-tax contributions are made
* Expenses incurred in arranging and maintaining the lease (not the lease repayments) are tax deductible for the employer for the period the lease is active
* The end of the employment relationship also ends the repayment commitment, as lease obligations revert to the (former) employee
* When you lease the vehicle from the finance company, you can claim a GST credit for the GST included in the lease charges. However you generally can't claim GST credits if you make input taxed supplies.

**Employee outcomes:**

* Salary sacrificing reduces taxable income, as the amount is from pre-tax salary
* The vehicle is of the employee's choice, and exclusive use and ownership
* As the car is a fringe benefit, FBT must be paid. The employer is liable for this payment, which is then balanced-out within the arrangement
* FBT is based on the purchase price of the vehicle, and is calculated using one of two options, the more common one being determined by a percentage of the kilometres travelled over a year
* Making post-tax contributions to the costs of owning the vehicle can reduce the FBT liability by the same amount contributed, up to the statutory percentage of the vehicle's taxable value. This can reduce total tax paid if the employee's tax rate is less than the FBT rate.
* Usually the vehicle is obtained more cost effectively, as there is:
	+ No GST on purchase (claimed by employer)
	+ Leasing companies usually get fleet discounts
	+ The employer may also get a corporate discount.