

FLEET  
MANAGEMENT  
salpac



**Novated Leases**  
everything you need to know

# Novated Leases

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## Why do a Novated Lease?

A Novated Lease is a convenient, tax effective way of purchasing a new or used vehicle. You sacrifice some of your salary in return for a fully maintained vehicle including the finance component, fuel, maintenance, tyres, insurance and registration.

## What is a Novated Lease?

A Novated Lease is a standard lease contract arranged via a financier, with a secondary document attached called a Novation Agreement. A Novation Agreement transfers some of the lease obligations to your employer. Once the Novated Lease is in place, it allows your employer to deduct money from your salary, which is then sent to Salpac to be used towards the running expenses of your vehicle.

A Novated Lease is effective if you:

- Are in the market to purchase a new or used vehicle;
- Have an existing vehicle that you own outright or have finance owing on;
- Drive a vehicle mainly for private purposes, however driving a vehicle for work related use can still provide a benefit;
- Drive high or low kilometers, it doesn't matter.

## The benefits

There are significant benefits of a Novated Lease which make it a popular finance option for many Australian employees:

- GST savings. Under a Novated Lease, you do not pay the GST on the purchase price of the vehicle or any of the running costs.

- Pay As You Go (PAYG) tax savings. Under a Novated Lease you sacrifice some or all of the deduction in pre-tax salary, therefore reducing your taxable income providing you with substantial benefits.
- The convenience of a Salpac Novated Lease. Salpac manages your vehicle's expenses, saving you the inconvenience of any out of pocket expenses.

## Purchasing a vehicle

You are able to select the vehicle of your choice, however there can be some restrictions depending on your employers Novated Lease policy.

You can purchase a new or used vehicle through your own preferred supplier or you can use Salpac's vehicle purchasing network for sourcing a new vehicle at a competitive price.

You can also consider a sale and leaseback on a vehicle that you currently own. This is where the financier can buy your vehicle from you and lease it back to you with all the same benefits of a Novated Lease.

## What's included in a Novated Lease?

If you are looking to purchase a vehicle now or in the future, make Salpac your first contact.

When you speak to a Salpac Vehicle Consultant, they will provide you with a quote based on the vehicle you are looking to purchase. This quote will factor in all the running expenses of the vehicle and show your annual tax savings.

Fuel: You will be provided with a fuel card which you use for all fuel purchases made on your vehicle. Salpac will be invoiced directly for all your fuel transactions.

Maintenance: Your Novated Lease arrangement covers costs for all servicing, repairs, tyres and batteries.

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Where an authorised service centre is used, Salpac will be invoiced directly for these expenses.

**Registration:** Your registration renewal will be sent to you directly from your state or territory office as the vehicle is registered in your name. You will need to pay for the renewal directly and send in the receipt to Salpac for reimbursement.

**Insurance:** Your vehicle insurance will fit into one of the following two categories;

If you elect to insure your vehicle through Salpac, your insurance premium will be paid by Salpac for the term of your Novated Lease.

If you elect to organise insurance through your own preferred insurer, your renewal will be sent directly to you. You need to pay for the renewal and send in the receipt to Salpac for reimbursement.

When you have any out of pocket vehicle expenses, Salpac will reimburse you for these costs.

Reimbursement claim forms can be downloaded from [www.salpac.com.au](http://www.salpac.com.au).

The following vehicle expenses cannot be salary packaged:

- Road tolls and e-Tag expenses;
- Traffic infringement notices and fines;
- Non work related accessories that are added to the vehicle after purchase.

## Budgets for your vehicle

When a Salpac Vehicle Consultant designs a quote, they will set annual budgets for the running costs based on the type of vehicle and the number of kilometers you plan to travel.

It's important to remember that money not spent against these vehicle budgets remains your money. If at the end

of your lease you have a credit balance, the funds will be returned to payroll and paid to you in after tax salary.

If during your lease you spend more than has been allocated to your vehicle budgets, Salpac will contact you to increase your regular salary deduction to account for the overspending. If at the end of your lease you have a negative balance, you will be required to cover this shortfall.

## Online Management

The ongoing management of your account and expenses are all handled by Salpac. You can access your account information and transaction summary using Salpac's secure online member area.

## Residual

At the end of your Novated Lease you will have a residual amount owing. Minimum residual amounts are determined by Australian Taxation Office (ATO) guidelines.

You have the following options when the residual value is due:

- Trade in your vehicle and enter into a new Novated Lease for another vehicle. If your trade-in amount is more than your residual (inc GST), this money is paid directly to you and cannot be used to offset the finance amount of your new vehicle. You must pay any shortfall between the trade-in price and the residual value.
- Refinance the residual amount (excl GST) that is owed over a period that suits you. You can then continue with the salary packaging benefits.
- Pay the residual value (inc GST) that is owed and own the vehicle outright. The benefit of the Novated Lease and salary packaging would then cease.

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## Fringe Benefit Tax

When you sacrifice salary with a pre-tax deduction, you reduce your taxable income, therefore reducing the amount of PAYG tax you pay. To offset this reduction in PAYG tax, the ATO levies another tax called Fringe Benefits Tax (FBT).

When you salary package a vehicle, you are required to pay FBT. This is based on the value of the vehicle and the number of kilometers travelled. In most cases your PAYG tax savings will be greater than the FBT you are required to pay.

In some cases, to offset the FBT that is payable, your employer allows you to contribute after tax funds towards the salary package deduction that is sent to Salpac. This method is commonly known as Employee Contribution Method (ECM). This method allows you to split your deduction into pre and post tax salary effectively offsetting the FBT liability. Salpac and your employer take care of these deductions through payroll. There is also no reportable benefit shown on your payment summary.

Depending on the status of your employer, your deduction may be broken up into pre and post tax funds or all pre-tax funds. Our Salpac Vehicle Consultants will design a salary package that maximises your possible tax savings dependent on this break-up.

The important thing to remember is that you don't need to be a high income earner or drive a large number of kilometers in order to benefit from a Novated Lease.

## Leaving your employer

A Novated Lease is a flexible product that can be transferred to another employer if they allow salary packaging.

The first thing you need to do if you are moving employment is to contact Salpac to discuss your options.

## Can I payout my lease early?

You are able to payout your lease early, however depending on how far into the lease contract you are, you may find the payout figure is higher than the vehicle's current market value. It is important to try and complete as much of the lease term as you can in order to avoid any shortfalls.

## Things to consider:

- Choose a vehicle that suits your needs;
- Select a lease term (1-5 years) that reflects how long you want to keep your vehicle;
- Determine the number of kilometers you plan to travel in the vehicle per annum;
- Leasing represents a financial commitment and involves some risks and responsibilities. You may consider seeking independent financial advice prior to entering into any leasing arrangement.

## How to proceed

If you are interested in a Novated Lease please call one of our dedicated vehicle consultants on 1300 888 870. They will be happy to answer any questions you have and provide you with a free Novated Lease quote based on your personal circumstances.

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