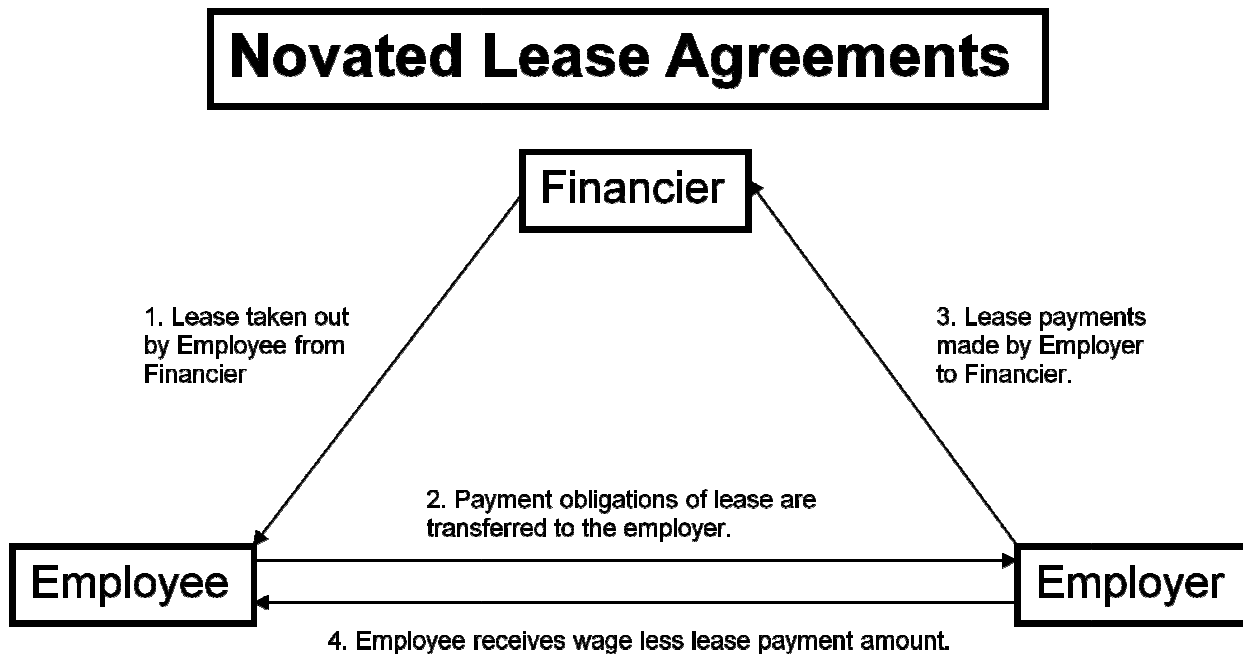


Novated Lease Arrangements

Novated lease arrangements are a form of salary sacrificing that can benefit both the employee and the employer. It involves an arrangement between the employer, employee and a financier. The lease is taken out by the employee (lessee) from the financier (lessor), however all rights and obligations of the lease are taken over by the employer. This is agreed to in a deed of novation between the three parties. When the employee ceases employment or the lease is terminated, the deed of novation transfers the rights and obligations back to the employee. This allows the employee to enter into a new novated lease arrangement with a new employer.

Example of a Partial Novation



There are two main types of Novation Arrangements:

- Partial novation – under a partial novation only the obligation to make lease payments is novated (transferred) to the employer. This means the employee is not making any of the lease repayments. Partial novation agreements commonly involve an additional transaction where the lessee (employee) will sublease the vehicle to the employer.
- Full Novation – this involves the novation (transfer) of all rights and obligations in either the finance lease and/or the sublease arrangement to the employer. Therefore the employer takes over full responsibilities contained in the original lease.

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Some of the benefits of a Novated Lease are as follows:

Employer Benefits-

- An easy cost effective way to add value to an employee’s remuneration package
- No burden of managing a company car fleet
- Allows the employer an income tax deduction for all lease payments under the agreement where the vehicle is used within the business or has been provided to an employee as part of their salary structure
- GST input tax credit is claimable on the lease repayments by all GST registered employers
- It is not necessary to record the car as an asset or liability of the business
- When the employee ceases employment the rights and responsibilities of the lease are then transferred to the employee

Employee Benefits-

- Tax effective remuneration as repayments are made out of pre-tax income
- The employee has the option to own the vehicle outright at the end of the lease term
- Unconditional use of the vehicle, that is for both work and private purposes
- Provides the employee flexibility in the choice of vehicle
- Both the vehicle and lease can move with the employee if the change employers.

Salary sacrificing is typically an arrangement made between the employee and the employer, with the purpose of using pretax earnings to pay for employee benefits such as motor vehicles. The benefits provided are no longer assessed for income tax, however, they may subject to Fringe Benefits Tax (FBT). We suggest you contact you client manager should you wish to discuss salary sacrificing arrangements and the potential FBT implications.

Example

Steve Boyd is an employee that works for an Auto Electrical Company “Diggers Auto Electrics”. Steve currently earns a salary of \$90,000.00 per annum.

Steve has been discussing with his employer (Paul) alternative methods of acquiring a new motor vehicle. Paul suggests a novated lease as a possible alternative. Please note the vehicle Richard wishes to lease requires annual weekly payments totaling \$12,076.20 (including GST).

Option 1: Without Novated Lease arrangement in place

Annual salary	\$ 90,000.00
Gross weekly pay	\$ 1,731.00
Less: PAYG	(\$ 450.00)
Net weekly pay	\$ 1,282.90
Less: weekly lease payment	(\$ 232.23)
Net disposable income	\$ 1,050.67

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Option 2: With Novated Lease arrangement in place

Annual salary	\$90,000.00
Less: lease payments (ex. GST)	<u>\$10,978.00</u>
Total gross payments	<u>\$ 79, 022.00</u>
Gross weekly pay	\$ 1,519.65
Less: PAYG	<u>(\$ 364.00)</u>
Net weekly pay	\$ 1,155.65

Option 2 provides the employee with an additional \$105.00 disposable income per week.

If you have any questions or require any further information please feel free to contact your Client Manager and they will be happy to assist you.

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