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Why Are Australian Employers supporting Novated Leases for their Employees.

Under Australian tax law any benefit provided to an employee must either be taxed under PAYG (pay as you go) tax or FBT (Fringe Benefits Tax).

PAYG tax is paid on all wages and salaries and any cash payments to employees.

All other benefits are taxed under FBT, and there are very few exceptions under FBT law, the two main concessionally treated items are cars, as defined by the ATO (Australian Tax Office) and superannuation.

This has led to the salary packaging of superannuation via salary sacrifice and cars via novated leases. While the principal beneficiary of novated leases is the employee, most employees will benefit by approx. \$2,000 to \$3,500 per year, there are also benefits to the employer.

Employers who implement a structured novated lease program benefit through the uplift in salary to the employee at no cost to the employer. This can ease the pressure on wages and salary negotiation with employees. Additional benefits are also gained via a novated lease program. These benefits include:

Cost Reduction:

By providing novated leases the cost of providing company cars for business use is either reduced or eliminated due to the assumption factored into the statutory formula of an amount of business use when calculating potential FBT liability.

Reduction/Elimination of FBT:

While the provision of novated leases gives rise to an FBT liability, through a correctly structured novated lease program such as that provided by INSIDE EDGE Novated Leasing, FBT is reduced to zero using an employee post-tax deduction method.

Car Industry Benefits:

Given novated leases provide such a significant benefit to employees, the car manufacturers and dealers provide discounts and service programs not available to retail car buyers. This adds significant benefit to employees and reflects well upon the organisation with whom they work as another reason why they enjoy working for the company.

Additional Company Savings:

Many employers benefit from the reduction in payroll tax and WorkCover payments given the total wage spend is reduced by the amount packaged under novated leases. Overall, novated leases are embraced by Australian employers as the combined benefit is viewed as a significant effort to be an employer of choice and a more advantageous place to work.



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So what are the Risks to the Employer?

The term novate means to transfer risks and benefits from one party to another. Therefore, under a novated lease, the employee enters a lease to fund the purchase of their car. This lease is then transferred or novated to the employer to unlock the taxation concessions for the employee.

As a result, the employer becomes responsible to make the rentals on behalf of the employee and this is achieved by reducing the pre-tax and post-tax salary by the amount while the employee is employed. This responsibility is cancellable by either party at any time, but specifically at the time of an employee's departure from the organisation.

This process is managed by InsideEDGE Novated Leasing via the company's payroll, to eliminate any risk to the employer. As with any departure, the employer ceases to make any further payment to the employer when an employee leaves and would logically cease to make any further payment under the novated lease.

So when an employee leaves the organisation, they leave with their car and lease and can then renovate their lease to the next employer. This eliminates the employer's risk both at the end of the lease period and if an employee moves on.

Insurance and Registration:

Under a novated lease the car must remain comprehensively insured and always registered. Both insurance and registration are listed in the employee's name and remain the responsibility of the employees to be paid at all times, this act eliminates the risk of an uninsured liability or lack of coverage under state compulsory third party insurance. This function is also managed and facilitated by InsideEDGE Novated Leasing as part of the contracted structured novated lease program.

Employee Finance Over-commitment:

A potential further risk maybe perceived as an employee over committing under a finance contract, this potential risk is negated by the implementation of established Australian banks and financiers as the funders of the primary lease contract. InsideEDGE Novated Leasing implements a panel of financiers bound by Australian legislation to diligently examine employees' financial circumstances to ensure serviceability of all lease contracts is feasible and under no duress.

FBT:

As mentioned earlier, when an employer provides a benefit to an employee it is to be taxed under FBT legislation and an FBT return needs to be submitted to the ATO. InsideEDGE Novated Leasing manages this process to ensure a nil return can be submitted in relation to the cars provided under the novated lease program. Once again reducing the Employer's risk to zero.

As can be seen InsideEDGE Novated Leasing structures novated lease programs that provide maximum benefit to employees while enabling the employer to eliminate risk while remaining in control of the program.

If your team has further questions please don't hesitate to contact either:

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