



Second-hand delivers first-class savings

“The cheapest car I have arranged to include is an old \$3000 Toyota Corolla ...
The most tax effective car on the road is a Datsun 120Y!”

There is no limit on the number of motor vehicles that can be included in a salary package.

Tax breaks using the statutory FBT calculation method can be achieved by a senior manager who packages cars for himself, a spouse not in the paid workforce and one or more adult children (eg. students).

I have advised one executive who included four cars in his package, which were all below the depreciation limit for luxury vehicles.

A top executive on a large income could save \$14,325 in tax by acquiring cars valued at \$55,000, \$30,000 and \$15,000 through his package, rather than privately using after-tax income. This saving is equivalent to a \$27,815 pre-tax cash bonus every year based on the statutory method for vehicles driven 15,000 km annually and always available for private use.

However, a more realistic example would be a senior executive who packaged two cars valued at \$30,000 and \$15,000. In this case the \$8665 tax saving equates to a pre-tax cash bonus of \$16,824.

There is a popular misconception that the only cars you can include in your package are new cars that are financed through novated leases.

In fact, the best cars you can package are the ones you own already.

FBT is based on the car's value. For existing cars this is their trade-in value, while expenses - petrol, maintenance, registration and insurance - are paid from pre-tax salary.



A brand new Commodore worth \$35,000 costs the same to run as a two-year-old Commodore with a trade-in value of \$15,000. The FBT payable on the older car would be one third of that on the new car.

The cheapest car I have arranged to include in a package is an old \$3000 Toyota Corolla. An executive in the top marginal tax bracket who packages this car would save \$1919 a year in tax equal to a pre-tax cash bonus of \$3726 a year.

An employee on \$40,000 per year who packages this car would save \$1200 a year in tax, equal to a pre-tax

cash bonus of \$1750 a year.

In fact, the most tax effective car on the road is a Datsun 120Y!

The cars you already own would be packaged through an associate lease. Once a roadworthiness and a valuation is agreed upon, the employee's spouse, a family relative, a family company or trust (referred to as "associates") leases the car for an agreed term to the employer who then provides it to the employee in a fully maintained manner.

Lease repayments and all running costs are then deducted from the employee's pre-tax salary. As with the novated lease, the reduced income tax is more than offset by the small amount of FBT they pay.

Additionally, the 'associate' is enjoying the income and can depreciate the value of the car progressively, against his or her own tax, over the life of the lease. These leases would suit more employees than the more commonly offered novated leases because they can be used with cars already owned by the employee. It is also an effective way of income splitting with a spouse. The associate lease option makes the packaging of cars an attractive option for a wider range of salaries, thereby enabling employers to offer packaging to a greater number of staff - and nobody has to go into debt to get the benefit.

Remunerator offers advice and services in all areas of employee benefit management. Matthew Honan can be contacted on (03) 9805 5602 or by email on honan@remunerator.com.au