

Buy smart and **save** thousands

The importance of a broad understanding of motor vehicle packaging options should not be underestimated. By thoroughly considering their options an individual employee will be able to make an educated decision most suitable for their circumstances.

Leasing the latest model vehicle is desirable in many ways but it may not be the optimal choice for all people. Everyone has heard the old catch cry that a new vehicle depreciates the minute you drive it out of the dealership and there are even more factors to consider when choosing which vehicle to package through a novated lease.

A recent model vehicle, with an odometer reading of below 50,000 kilometres, can potentially be a very smart vehicle choice. This vehicle is also likely to have an unused warranty period of a year or two. And most financiers are more than happy to provide finance on used cars provided they are less than four years old.

As you are most likely aware, the Fringe Benefits Tax (FBT) value of a vehicle is determined primarily by the vehicle value

and the distance travelled each year.

Consider that a brand new Commodore Executive auto V6 sedan has a retail on-road cost of \$33,600. Meanwhile a two-year-old vehicle (same shape and spec) costs approximately \$21,000. Assuming 25,000 kilometres are travelled each year, then the FBT payable for the whole lease period (three years) would be \$4,284 less for the two-year-old vehicle.

Choosing the two-year-old vehicle will mean slightly higher maintenance costs than a brand new vehicle, as replacement tyres and a major service will be required at approximately 100,000 kilometres. However these additional costs were factored into the examples below with minimal impact.

Individual employees should be given the opportunity to create a package that will best meet their needs. Consider two hypothetical employees who each earn \$70,000 per annum. Daniel is 33 years old, loves new cars and wants to package the brand new Holden Commodore outlined above. His total car package cost ends up being \$17,635 per year, but he is happy with this decision.

On the other hand Sandra, who is 45 years old, decides the two-year-old model is sufficient for her purposes. At \$13,311 her total annual car package cost is \$4324 less than Daniel (or \$12,972 over the three-year period). By choosing the earlier model car she could now salary package the \$4324 difference each year to her superannuation fund. A very effective way to grow her retirement nest egg.

There is no doubt that some people place a very high value on driving the latest model vehicle but we need to appreciate there are other individuals to whom making the smartest long term financial decision is more important. Individuals who belong to the latter group may seriously want to consider the option of salary packaging a recent model vehicle rather than a brand new one. *bvm*

The information in this article is provided as a guide only and is not a substitute for legal or other professional advice. Tables are for illustrative purposes and actual figures could vary. Remunerator provides services in all areas of employee benefit management and can be contacted by email on marketing@remunerator.com.au.

CASE STUDY 1 - NEW CAR

Daniel earns a gross salary of \$70,000 per annum and wishes to package a brand new Commodore Executive auto V6 sedan.

- Purchase Price: \$33,600
- Annual distance travelled: 25,000kms
- Novated lease payment: \$8423
- Registration: \$550
- Insurance: \$750
- Petrol: \$3250
- Maintenance: \$1000
- FBT: \$3662
- Total package cost of car \$17,635

	Without Packaging	With Packaging
Gross Salary	\$70,000	\$53,585
Plus Benefits Packaged:		
Motor Vehicle		
- Motor Vehicle Lease	-	\$8423
- Running Costs	-	\$5550
- FBT	-	\$3662
Less GST passed back		(\$1220)
Total Package	\$70,000	\$70,000
Less Income Tax	\$20,757	\$13,241
Take Home Pay	\$49,243	\$40,344
Less Benefits not Packaged:		
Motor Vehicle Lease	\$8423	
Running Costs	\$5550	
Cash Remaining	\$35,270	\$40,344
Cash Saving		\$5074

CASE STUDY 2 - USED CAR

Sandra earns a gross salary of \$70,000 per annum and wishes to package a two-year-old Commodore Executive Auto V6 Sedan.

- Purchase Price: \$21,000
- Annual distance travelled: 25,000kms
- Novated lease payment: \$5277
- Registration: \$550
- Insurance: \$750
- Petrol: \$3500
- Maintenance: \$1000
- FBT: \$2234
- Total package cost of car \$13,311

	Without Packaging	With Packaging
Gross Salary	\$70,000	\$57,646
Plus Benefits Packaged:		
Motor Vehicle		
- Motor Vehicle Lease	-	\$5277
- Running Costs	-	\$5800
- FBT	-	\$2234
Less GST passed back		(\$957)
Total Package	\$70,000	\$70,000
Less Income Tax	\$20,757	\$15,008
Take Home Pay	\$49,243	\$42,638
Less Benefits not Packaged:		
Motor Vehicle Lease	\$5277	
Running Costs	\$5800	
Cash Remaining	\$38,166	\$42,638
Cash Saving		\$4472