



Home Loans
Investment Loans
Business Loans
Commercial Property Loans
Asset Finance



Fact Sheet: Novated lease

What is a Novated Lease?

Novated Leasing is a method of salary packaging a car, under which an employee leases a car and the employer agrees to take on the employee's obligations under the lease, paying the monthly lease rentals from the employee's pre-tax income.

Novated Lease is the most common form of salary packaging a car.

How does a Novated Lease Work?

A Novated Lease is a three way agreement between an employer, employee and finance company whereby the employee enters into a Car Lease (Finance Lease) with the financier and the employer agrees to take on the employee's obligations under the lease.

Under this arrangement, the employer pays the monthly lease rentals on behalf of the employee, and provides the vehicle for the employee to use as part of their salary packaging arrangement.

If employment ceases for any reason, or the lease agreement is finalised, the Novation ceases and the obligations assumed by the employer revert back to the employee.

Benefits of a Novated Lease for Employees

- Choice - you can choose the car that best suits your needs
- Control - you control the car, including care and maintenance
- Portability - you can take the vehicle and lease with you if you change jobs
- Tax effective - repayments are made out of pre-tax income, so you may require a smaller portion of your income to run the vehicle
- You retain any equity built up in the vehicle, not your employer
- All the other regular benefits of a Car Lease (Finance Lease)

For Employers:

- No residual risk
- No excess vehicles if an employee leaves
- Employer can provide a more attractive remuneration package, and therefore attract the employees they want
- Reduced administration time and costs (compared to company cars)
- Reduced on-costs such as Payroll Tax and Workcover premiums

Who does a Novated Lease Suit?

A Novated Lease will suit any employee who wants to include a motor vehicle as part of their salary package, so long as their employer offers salary packaging as an option for employees.



Home Loans
Investment Loans
Business Loans
Commercial Property Loans
Asset Finance

Tax Implications of a Novated Lease

Under a Novated Lease, the finance company and employer can claim an Input Tax Credit (ICT) for the GST included in the purchase price of the vehicle and the monthly lease payments. The benefit of these Input Tax Credits is passed on to the employee, essentially making a Novated Lease GST-free (subject to a few limits).

At the end of the lease - or in the event of early termination - GST is charged on the residual value of the lease, and as the Novation reverts back to the employee, the employee is responsible for paying the GST on the residual.

Fringe Benefits Tax (FBT) is also payable on the benefit provided through the Fully Maintained Novated Lease, and this expense is normally passed on to the employee. The amount of FBT depends on the kilometres travelled each year - the higher the kilometres, the lower the FBT - although this FBT can be offset through employee contributions to the running costs of the vehicle (the Employee Contribution Method (ECM)).

What happens if I leave my employer during the lease term?

Should you leave your employer, your employer's novation agreement with the financier concludes. A full reconciliation of the running costs, up to the lease end date will be carried out, with any surplus or shortfall being settled in your pay by your employer. Pro-rata FBT will also be settled prior to departing your employer.

What happens next?

- Subject to your new employer's agreement, arrange for a new novation agreement with them, or
- Continue to pay your monthly lease rentals, under your finance lease agreement (vehicle running costs will not be included in this payment), or
- Pay out the lease and make an offer to purchase the vehicle, or
- Return the vehicle to the lender to sell and any profit or loss realised from the sale after pay out of the lease will be passed on to you.

An informed decision is always the best decision.

If you would like more Details on Novated Leases or would like to speak to a Professional Mortgage Specialist about your personal circumstances, please phone Loan Wize for an appointment.