

What is a Novated Lease? Employer Guide



What is a Novated Lease?

It is a form of car finance that consists of a three-way agreement between an employer, employee, and a novated lease provider.

It allows an employee to finance and maintain a vehicle as part of their salary - accessing GST savings, using pre-tax salary to make payments and giving them the convenience of one simple payment for their car. You, the employer, simply make payments to Novated Lease Australia from your employee's salary and we take care of the rest.

Darren M - FDC

“ Onboarding Novated Lease Australia has been an excellent addition to our employee benefits package. Their outstanding customer service provides prompt and professional support at every stage, coupled with competitive pricing for our employees. ”



How does a Novated Lease work?

The lease payments and the running costs of the vehicle are bundled into one convenient repayment from your employee's salary. These repayments don't change for the whole term of the lease, except for in the rare event that the employee needs to adjust their budgets.

As part of the agreement each party has the following roles to play.



The Employee

The employee agrees to have those salary deductions in exchange for the use of the vehicle.



The Employer (You)

You simply need to agree to the Novated Lease agreement, take regular automatic deductions for the Novated Lease payments from the employee's salary and remit to Novated Lease Australia.



Novated Lease Australia

Novated Lease Australia can procure the vehicle, establish the lease, make the lease repayments to the financier, and manage the administrative, contractual and compliance aspects of the transaction.



Employer Benefits



Retention of staff

A Novated Lease offers employees a considerable savings and increased employee satisfaction



Save time

A Novated Lease is typically more time-efficient and cost-effective than administering a traditional company fleet



No costs

A Novated Lease is cost neutral to your business



Simple operation & administration

Regular payroll deductions are easily automated. Administration and compliance are managed by us, not you



Minimal obligations

No ongoing obligations in the event an employee leaves the business, the Novated Lease also leaves with them



Payroll tax savings

Payroll tax liability for employers may be reduced for each employee taking up a Novated Lease

Did you know?

80% of employees satisfied

with their benefits are also happy with their jobs

MetLife's 2019 study

70% stay loyal to their employers

This shows a strong link between benefits, like novated leasing, and retention.

MetLife's 2019 study

63% of employees stay with their employer

because of their benefits, including novated leasing.

PwC's 2021 survey



Fringe Benefit Tax: How it Works

Fringe Benefit Tax (FBT) is applied to any fringe benefit received by an employee from their employer. Novated leasing a vehicle is a fringe benefit.

The employee's salary deductions will be calculated to alleviate the FBT liability, leaving no cost to the employer. The taxable value amount is calculated on motor vehicles under a novated lease, one of three ways:



1. Statutory Formula

A flat 20 per cent rate on the base value of the vehicle (excluding on road costs)



2. Operating Cost

Only applied to vehicles with a high percentage of business use, and where a log book will be maintained



3. FBT Exempt

Electric Vehicles (EVs) under the Luxury Car Tax threshold are FBT exempt meaning there is no FBT liability

Zero FBT Liability for Employer: Explained

- While the employer is typically liable for the FBT amount, the employee will reduce this liability to a nil balance through post-tax contributions to the vehicle's running costs.
- The main method to reduce FBT on a novated lease is through the Employee Contribution Method (ECM), and will be agreed upon between the employer and the employee when creating the salary packaging agreement.
- Using the ECM, contributions made from the employee's after-tax salary will reduce FBT obligations when used to pay for running costs on the car.
- You can eliminate FBT liability completely, because every dollar paid from the employee's after-tax salary reduces the FBT liability by the same amount.

Novated Lease Australia will provide a payroll advice to the employer detailing the recommended pre-tax and post-tax deductions from the employee's salary to alleviate the FBT liability.



GST for Your Employees: How it Works

At Novated Lease Australia, we want to ensure we are always achieving the maximum tax benefit for your employees who are entering a Novated Lease.

GST savings to your employees becomes one of those tax benefits available, adding to the already great income tax savings they enjoy through this benefit.

How does this work? Let us explain



You will receive a Payroll Advice from Novated Lease Australia that advises your payroll team what deductions to create both Pre Tax and Post Tax (if applicable).

These amounts are the actual deduction amounts payable by your employee for their Novated Lease which you will deduct from their pay each pay cycle. You will see that the “Pre Tax Salary Sacrifice” amount is excluding GST.



Looking at your Payroll Advice you will then notice a deduction amount listed as “Input Tax Credit (Claim in BAS)”. This amount is the GST payable on behalf of your employee that goes towards all of your employee’s vehicle and running expenses..

This is paid by you as the Employer each pay cycle which you then, as the employer, claim in your BAS given this is an employer provided benefit. By you paying this amount on behalf of your employee and then claiming this expense in your BAS, this ensures the expense remains **cost neutral** to your business.

At Novated Lease Australia, we want to make novated leasing accessible and affordable for everyone. That is why our program is designed to pass on 100% of the benefits to your employees.



A Tailored Novated Benefits Program



Low touch for employers, and a high touch employee experience program designed for you, using our people and our technology.



Seamless onboarding for your team and ongoing support



Online or On-Site Employee Education sessions



A full novated benefits launch to your team



A team with over 350 years combined experience



Nationwide Coverage



Fee free procurement



Novated Leasing Explained