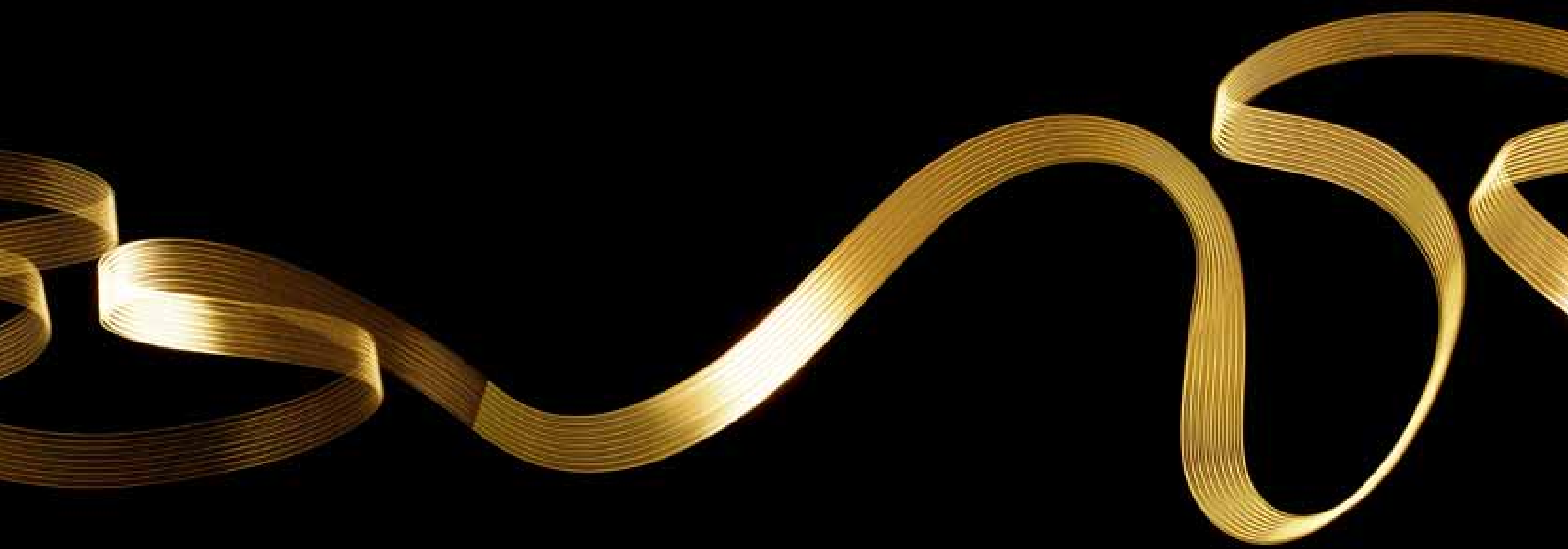
FBT CHANGES - WHAT YOU NEED TO KNOW

AUGUST 2013



LeasePlan

It's easier to leaseplan

LeasePlan provides this information to help you understand the potential impacts on your fleet operations and vehicle leases as a result of the recently proposed changes to FBT.

LeasePlan provides this information to help you – our novated lease customers - to understand the potential impacts on your current or future novated lease as a result of the recently proposed changes to FBT.

We also outline the steps LeasePlan has taken, and recommend some steps you may choose to take.

Novated drivers are not all the same. Some self assessment is essential to determine the right course of action for you. LeasePlan Customer Service teams are able to assist.

WHAT FBT CHANGES?

On 16 July 2013, the Australian Federal Government announced proposed changes to the FBT laws relating to vehicle leases – abolishing the Statutory Method of FBT reporting, leaving Operating Cost Method (OCM) as the only option for calculating FBT liability of novated vehicle leases.

Pending the result of the 7 September Federal Election and the details of any new legislation, these proposed changes will mean that actual FBT liabilities will be calculated according to the percentage of private use, which would be determined by all drivers completing a compliant logbook recording all business trips and their purposes over a continuous 12-week period, at least once every five years.

Most novated leases currently use the Statutory Method of FBT Reporting. If the changes are implemented, all FBT calculations will have to use OCM **(http://www.leaseplan.com.au/about-us/news/read/what-is-operating-cost-method/).**

FBT 'METHODS'

Under the **Statutory Method**, the value of the benefit is calculated as follows:

- Cost of the Car (GST inclusive) **X** Statutory Percentage **X** Days Vehicle Available for Private Use / Days in the Year **less** Employee Contribution

Under the Statutory Method, accurate odometer readings, plus declarations of Days Unavailable and Personal Contributions are required each year on 31 March to allow for accurate FBT calculations.

Distance travelled during the FBT year (1 April - 31 March)	**Statutory Rate** (multiplied by the cost of the car to determine a person's car fringe benefit)				
	Leases Before 10 May 2011	New Vehicle Lease Contracts entered into after 7.30pm (AEST) on 10 May 2011			
		From 10 May 2011	From 1 April 2012	From 1 April 2013	From 1 April 2014
0 – 15,000 km	0.26	0.20	0.20	0.20	0.20
15,000 – 25,000 km	0.20	0.20	0.20	0.20	0.20
25,000 – 40,000 km	0.11	0.14	0.17	0.20	0.20
More than 40,000 km	0.07	0.10	0.13	0.17	0.20

Under Operating **Cost Method (OCM)**, the value of the benefit is calculated as follows:

- Total Annual Operating Costs (GST inclusive) **X** Percentage of Private Use **less** Employee Contribution

Under OCM a valid logbook is mandatory to determine a valid Private Use percentage.

WHAT WILL THE CHANGES MEAN?

Statutory Method will be abolished – only available to pre-existing leases as at 16 July 2013 - and OCM, or 'logbook method', will be the only valid method of FBT calculation for new lease agreements.

New Leases: Any new novated leases commenced after 16 July 2013 will be subject to the changes from 1 April 2014.

Existing Leases: Pre-existing novated leases commenced prior to 16 July can run to the end of their term, under Statutory Method, without impact. However, certain 'material change' variations to an existing lease can trigger the mandatory application of OCM.

Materially Changed Leases: Any existing novated leases commenced before 16 July 2013, then 'materially changed' after 16 July 2013 will be subject to the changes from the beginning of the next FBT reporting period. A 'material change' to an existing lease would include any change to the lease term (i.e. extending the lease by 12 months) or a change in the lease amount finance (i.e. adding a tow bar).

Novated leases that are moved from one employer to another would also be classified as a 'material change' however it is expected that OCM would apply immediately upon commencement with the new employer, not at the beginning of the next FBT reporting period.

While this may increase tax liabilities for leases where the vehicle is most commonly used for private use, it may reduce the tax liability for leases where the vehicle is most commonly used for business use.

IS NOVATED LEASING DEAD?

Reports of the death of novated leasing are an exaggeration.

The key benefits of novated leasing have always been:

[1.] Concession tax benefit (Statutory Method FBT vs. PAYG)

[2.] Ability to build equity and at end of lease turn equity into tax free benefit

[3.] GST benefit in buying the vehicle and in operating cost services

[4.] LeasePlan derived benefits including volume buying discounts, professional fleet management practices (maintenance and repair approvals and cost controls, operating cost payments)

[5.] Convenience of packaging a vehicle – no shopping, no negotiating, cashflow certainty, monthly reporting

[6.] Safety net features that protect you if your employment is terminated

The removal of the Statutory Method could remove or reduce one key benefit - the concessional tax benefit - and some benefits associated with GST may be reduced. But all other key benefits remain and novated leasing will still be an effective and desirable salary packaging option for many employees.

If you can demonstrate an element of business use, you will still retain at least some tax benefit after any changes are introduced. Depending on the extent of the business use, you may even achieve higher concessional tax benefits.

Even if you have 0% business use, if you want a new car, the benefits of novated are still very strong with our comparisons showing a financial edge, plus all the benefits and convenience of packaged motoring with LeasePlan.

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Remember that – removing the concession tax element – when you get a LeasePlan novated lease you benefit immediately through;

- A heavily discounted purchase price, delivered through LeasePlan's significant volume buying capacity and fleet discounting
- Discounts of at least 20% over retail on servicing, parts, labour, tyres, batteries and glass
- Convenience through even expenditure with monthly instalments covering things like insurance, registration and servicing – eliminating the cashflow spikes from DIY motoring
- Accountability through detailed tracking of all motor vehicle expenses
- Added bonus of LeasePlan's fuel card processes – inclusive of discounts, cashless transactions and detailed reporting
- Take advantage of LeasePlan's continually evolving technology and service, including LeasePlan Online and mobile apps – to make running a car even easier

If you need a new car, it makes sense to look at all viable options to get that car in the most cost effective manner. If you were to assess all options, then novated is most certainly one of the options you must look at.

Your personal circumstances and requirements will dictate your choice, but it would seem novated leasing will still stack up very favourably in most new car deliberations.

ANALYSIS OF CHANGE

LeasePlan has done some modelling on what the changes would look like for novated lease drivers, based on two commonly representative scenarios:

[1] Employee earns $75k p.a and leases a $35k vehicle
[2] Employee earns $125k p.a and leases a $50k vehicle

The modelling looks at the current Statutory Method, compared to

- Employee financing and running the same vehicle themselves with after-tax tax income,
- Employee keeping the same lease conditions under OCM
  – with 100% Private Use (PU);
  – with 75% Private Use (PU);
  – or with 55% Private Use (PU).

The findings:

All OCM scenarios retain the considerable LeasePlan advantages of building equity, buying power discounts, convenience and expert management, with only the concessional tax benefit impacted.

- 100% PU – the concessional tax benefit is eliminated
- 75% PU – around 60% of the concessional tax benefit is retained
- 55% PU – the concessional tax benefit increase by up to 12%

ANALYSIS VEHICLE $35000 INCOME $75,000	STAT METHOD	SELF AFTER TAX	OPERATING COST METHOD		
Disposable income:	Salary Packaging with ECM	Finance 100% Post Tax	OCM PU 100% with ECM	OCM PU 75% with ECM	OCM PU 55% with ECM
Annual Salary	$75,000.00	$75,000.00	$75,000.00	$75,000.00	$75,000.00
Pre-Tax Vehicle Cost, GST Excluded	$6,956.32	$0.00	$0.00	$3,489.08	$6,280.34
Taxable Income	$68,043.68	$75,000.00	$75,000.00	$71,510.92	$68,719.66
less Tax Payable	$14,681.85	$16,774.00	$16,774.00	$15,587.71	$14,588.68
Employee self fund & operate		$15,355.25			
Post-Tax Employee Contribution	$7,700.00		$15,351.95	$11,513.96	$8,443.57
Annual Disposable Income	$45,661.83	$42,870.75	$42,874.05	$44,409.25	$45,687.41
Salary Packaging Advantage per annum	$2,791.08		$3.30	$1,538.50	$2,816.66

ANALYSIS VEHICLE $50000 INCOME $125,000	STAT METHOD	SELF AFTER TAX	OPERATING COST METHOD		
Disposable income:	Salary Packaging with ECM	Finance 100% Post Tax	OCM PU 100% with ECM	OCM PU 75% with ECM	OCM PU 55% with ECM
Annual Salary	$125,000.00	$125,000.00	$125,000.00	$125,000.00	$125,000.00
Pre-Tax Vehicle Cost, GST Excluded	$7,747.52	$0.00	$0.00	$4,436.88	$7,986.38
Taxable Income	$117,252.48	$125,000.00	$125,000.00	$120,563.12	$117,013.62
less Tax Payable	$33,089.20	$35,799.00	$35,799.00	$34,090.80	$32,655.91
Employee self fund & operate		$19,564.60			
Post-Tax Employee Contribution	$11,000.00		$19,522.27	$14,641.70	$10,737.25
Annual Disposable Income	$73,163.27	$69,636.40	$69,678.73	$71,830.62	$73,620.46
Salary Packaging Advantage per annum	$3,526.88		$42.33	$2,194.22	$3,984.06

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WHAT IS LEASEPLAN DOING?

Until any legislation changes are confirmed, all we can do is ensure you are informed and prepared, and that your current lease arrangements are not adversely affected.

Any new quote from LeasePlan now displays two sets of FBT estimations – one for Statutory Method that will apply at least until April 2014, and the other for OCM that may apply from April 2014.

If you seek to proceed with a new novated lease after 16 July 2013, you will be contacted individually and the possible impacts of the changes on your lease will be explained to ensure you are fully informed before your new lease proceeds to order.

LeasePlan's systems and reporting will continue to calculate the FBT using the Statutory Method until April 2014.

If your lease is due to expire between now and the end of the year LeasePlan is offering non-standard lease extensions until March 2014, giving you more time under your existing lease conditions to await the outcome of the election and the proposed legislation change and make a more informed decision about your next vehicle.

If you request a variation, or a 'material change' to an existing lease, you will be contacted by LeasePlan to ensure you fully understand the potential impacts before you authorise the change.

A comprehensive LeasePlan Driver 'app' that integrates directly with LeasePlan Online is in development and will be deployed by early 2014, well before any proposed changes take affect.

This app will include a powerful logbook module to make it easy for smartphone carrying drivers to complete logbook obligations – should they become mandatory - with the backing of LeasePlan's system data gathering and reporting.

What can drivers do?

- Take advantage of LeasePlan's extension service to secure your novated lease and wait until there is some legislative certainty.
- Individual drivers may wish to self-assess their Business/Private Use immediately to estimate the potential tax treatment of any future novated leases. They can do this easily by downloading LeasePlan's OCM guidelines and Logbook from LeasePlan Online. Simply follow the instructions and complete the logbook period to calculate Private Use.

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