

BUY SMART and save

Buying used could be a sound economic move. Matthew Honan takes a look at the options.



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Some of you may recall that I addressed this issue about two years ago. But I felt it would be worthwhile to revisit this topic as the steady drop in trade-in values has made for some good buying in the used car market.

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 car, with an odometer

A RECENT MODEL CAR CAN BE A VERY SMART CHOICE

reading under 50,000km, can potentially be a very smart choice. This vehicle is also likely to still have an unused warranty period, and most financiers will provide finance on used cars that 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) costs approximately \$21,000. Assuming 25,000km are travelled each year then the FBT payable for the whole lease period (three years) would be \$2752 less

with the two-year-old vehicle.

Choosing the two-year-old vehicle will mean slightly higher maintenance costs than a brand new vehicle as both replacement tyres and a major service will be required at approximately 100,000km.

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 both earn \$70,000 a year. Daniel is 33 years old, loves new cars and wants to package that brand new Holden Commodore outlined above.

His total car package cost ends up being \$13,042 a year (pre-tax \$9549, post tax \$3493) 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 \$10,290 (pre-tax \$8127, post tax \$2163) her total car package cost is \$2752 a year less than Daniel (\$8256 over the three-year period).

By choosing the later model car, she could now salary-package the \$2752 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 that brand new one.

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:	\$8,423
Registration:	\$550
Insurance:	\$750
Petrol:	\$3,250
Maintenance:	\$1,000
Total cost:	\$13,973

Pre-tax contribution: \$9,549 (net of GST credits etc)
Post-tax contribution: \$3,493

	WITHOUT PACKAGING	WITH PACKAGING
Gross salary	70,000	60,451
Plus benefits packaged:		
Motor vehicle	-	9,549
Total package	70,000	70,000
Less income tax	17,400	14,391
Take-home pay	52,600	46,059
Less benefits not packaged:		
Motor vehicle	13,973	3,493
Cash remaining	38,628	42,566
Cash saving		3,938

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:	\$5,277
Registration:	\$550
Insurance:	\$750
Petrol:	\$3,500
Maintenance:	\$1,000
Total cost:	\$11,077

Pre-tax contribution: \$8,127 (net of GST credits etc)
Post-tax contribution: \$2,163

	WITHOUT PACKAGING	WITH PACKAGING
Gross salary	70,000	61,873
Plus benefits packaged:		
Motor vehicle	-	8,127
Total package	70,000	70,000
Less income tax	17,400	14,840
Take-home pay	52,600	47,034
Less benefits not packaged:		
Motor vehicle	11,077	2,163
Cash remaining	41,523	44,871
Cash saving		3,348