



# Luxury novated leases not to be sneered at

A motor vehicle option gathering momentum is allowing the packaging of luxury motor vehicles. The Australian Taxation Office (ATO) issued a tax ruling (TR 1999/15) on novated leases, which included a section on the treatment of luxury motor vehicles. These are defined as motor vehicles that have a purchase price (excluding stamp duty and registration) exceeding \$57,009 for 2003/2004.

Essentially, lease payments for luxury motor vehicles are *not* tax deductible to the employer as the vehicles must be treated as if owned by the employer.

However, the deemed depreciation and interest costs are then deductible. This is similar to the tax treatment of motor vehicles purchased outright.

The overwhelming response by the market was to cease allowing employees to package luxury motor vehicles because they were either too hard to manage or no longer worthwhile packaging.

Some remuneration and packaging specialists have developed luxury novated lease programs that enables these motor vehicles to be included in a salary package with no additional administration burden on the employer.

When calculating the cost of the luxury motor vehicle to the salary package, Remunerator includes a 'luxury car

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charge' that is also deducted from the pre-tax salary. This luxury car charge compensates the employer for the amount that is not allowable as a deduction each year. It is deducted in addition to the actual annual lease payments. This figure is automatically adjusted each year to allow for the diminishing value of the motor vehicle.

It is worth noting that the packaging of luxury motor vehicles is still often worth-

while. The non-deductible charge is calculated at the company tax rate and not the individual tax rate.

The case study below illustrates how an employee earning \$100,000 p.a. can include an \$80,000 BMW 5 Series in his or her salary package and still gain more than \$3200 p.a. in cash, compared with financing the BMW privately. The assumption is that the motor vehicle travels 15,000 km each year.

	WITHOUT PACKAGING	WITH PACKAGING
<b>Gross Salary</b>	<b>\$130,000</b>	<b>\$88,781</b>
Plus BMW 5 Series:		
• Lease Payments		\$19,318
• Running Costs		\$5,350
• FBT		\$16,528
• GST Refund		(\$2,060)
• Luxury Car Charge (1st year)		\$2,084
<b>Total Package</b>	<b>\$130,000</b>	<b>\$130,000</b>
Less Income Tax	(\$49,857)	(\$29,866)
<b>Take Home Pay</b>	<b>\$80,143</b>	<b>\$58,915</b>
Less Expenses		
• Lease Payments	(\$19,318)	
• Running Costs	(\$5,350)	
<b>Cash Remaining</b>	<b>\$55,475</b>	<b>\$58,915</b>