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Salary Package a car and pay no FBT

One of the greatest misunderstandings in salary packaging is that packaging a car is only worthwhile if the employee earns more than $50,000 per year. In fact, if structured correctly, an employee earning $40,000 can effectively save around $2400 in take-home pay p.a. by packaging a $30,000 car, travelling 15,000 km p.a. (refer to the table below).

The saving is around $1650 in take home pay for 10,000 km/yr. In the case of the traditional method, which deducts from pre-tax the total cost of running the car – lease payments plus Fringe Benefits Tax (FBT) – there is effectively no gain by packaging the $30,000 if travelling 15,000 km/yr (see table below). And at 10,000 km/yr the employee is effectively $1400 behind.

The FBT legislation is complicated and most people's understanding is:

FBT Payable = FBT Taxable Value x 48.5% x 2.1292

Where: FBT Taxable Value = Purchase Price x Statutory Rate

However, there is more to the calculation, in that the FBT taxable from all fringe benefits is reduced by the contribution an employee makes after tax to the cost of the benefit.

This is because they have already paid income tax on these funds and the ATO has a rule of no double taxation in this area. It is similar to the imputation tax credit system for share dividends.

So, if the employee contributes to the running costs of the car, the FBT Taxable Value will reduce by the same amount. In fact, if the employee contributes an amount equal to the FBT Taxable Value, the employee will not pay any FBT.

This is referred to as the Employee Contribution method. As FBT is equal to the top marginal tax rate of 48.5 per cent, it would not be worthwhile using the Employee Contribution method as you would be swapping the FBT rate with the same rate of tax. It is only worthwhile for employees earning less than the top marginal tax rate. Given the average marginal tax rate is 31.5 per cent, it opens up the packaging of cars for average employees.

Case study

An employee earns a gross salary of $40,000 p.a. and wishes to package a new motor vehicle:

Purchase price:	$30,000
Annual distance travelled:	15,000 km
Novated lease payments:	$7,317 p.a.
Registration:	$450 p.a.
Insurance:	$800 p.a.
Petrol:	$2,500 p.a.
Maintenance:	$500 p.a.
Employee Contribution = $30,000 x 20%)	$6,000 (or

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	WITHOUT PACKAGING	WITH PACKAGING (without Employee Contribution)	WITH PACKAGING (with Employee Contribution)
Gross Salary	40,000	23,195	35,393
Plus Benefits Packaged:			
Motor Vehicle			
• Lease Payments	-	7,317	7,317
• Running Costs	-	4,250	4,250
• FBT	-	6,198	6,198
• Employee Contribution	-	-	(6,000)
Less GST Refund		(960)	(960)
Total Package	40,000	40,000	40,000
Less Income Tax	8,772	3,478	7,321
Take Home Pay	31,228	19,717	28,072
Less Benefits not Packaged:			
Motor Vehicle			
• Lease Payments	7,317	-	-
• Running Costs	4,250	-	-
Less Employee Contribution (including GST)	-	-	(6,000)
Takehome Pay	19,661	19,717	22,072
Cash Saving		56	2,411