

ASSOCIATE LEASE BENEFIT PROFILE

Information Sheet

An Associate Lease (AL) allows an Employee to use their Associate's vehicle as a benefit and affords the Associate the opportunity to convert an asset that does not earn income into one that does.

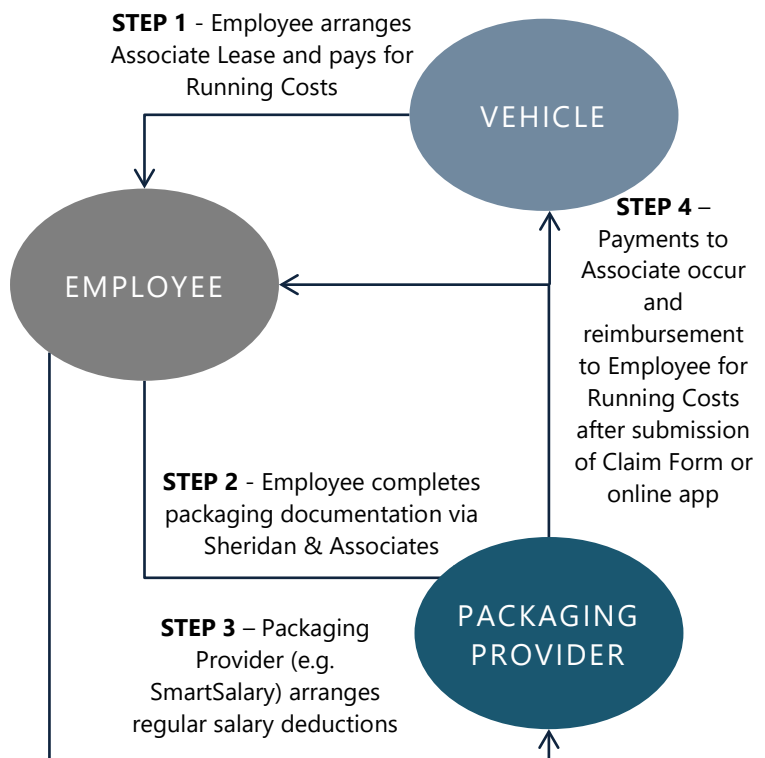
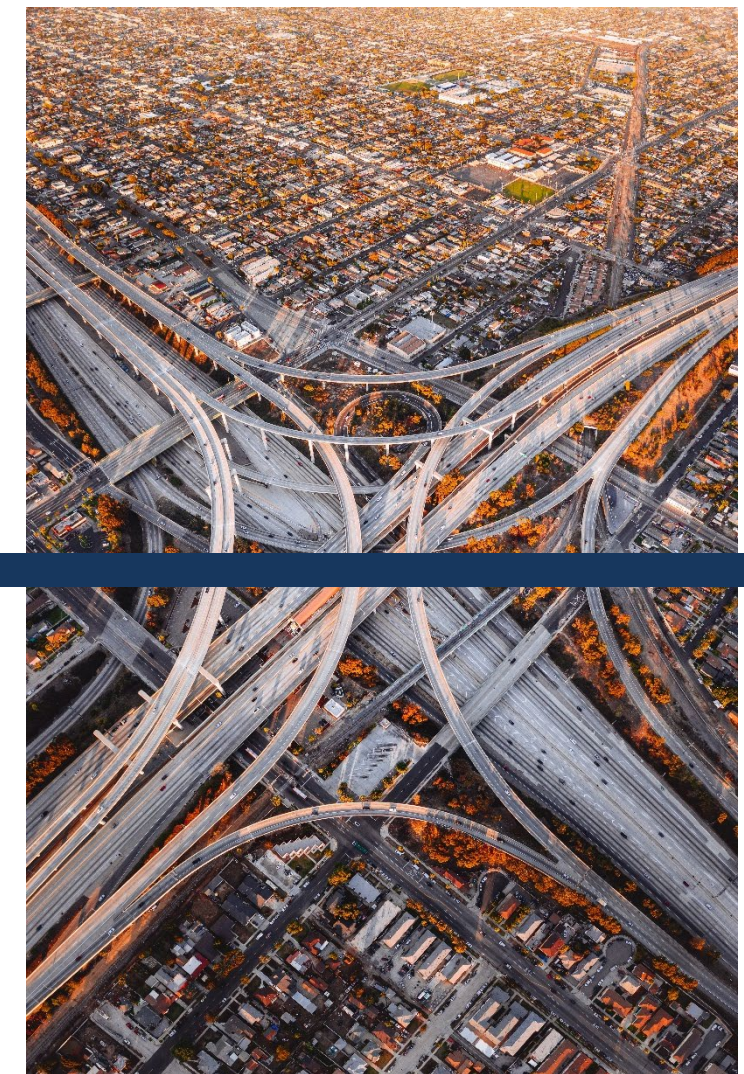
Typically, the Associate is the Employee's spouse, however maybe a partner, relative, family company/ trust or child of driving age. The Associate leases their car to the Employer who then makes it available to the Employee as a Car Fringe Benefit.

The Associate earns income from the arrangement in the form of the lease payments. These payments are paid to the Associate from the Employee's Salary Package. Since the Associate Lease is an operating lease, it requires no principal repayment at the end of the lease term. Additionally, the associate's income can be offset by depreciation and any interest on funds that may be borrowed to finance the car.

PROCESS OVERVIEW

The Employer makes lease payments to the Associate (normally via a salary packaging provider) and makes the vehicle available to the Employee. The Associate is required to show both the income and any deductions in their tax return. The major deductions relate to eligibility for depreciation and any finance charges that the Associate may have attached to the vehicle (for example interest on a car loan).

The Employee ordinarily receives a Fuel Card from the selected supplier and uses this card (or their own credit card) to pay for fuel and oil. The sum of these and other operating expenses, such as registration, car servicing and insurance, are allocated to the Employee's Salary Package.



SAVINGS EXAMPLE

In this example, John is the Employee. After receiving salary packaging advice, John decides it would be beneficial to setup an Associate Lease Agreement with his wife Jane as the Associate. John has chosen to use the Employee Contribution Method to manage the FBT Liability. Jane purchased the car one year ago using her savings.

ASSUMPTIONS

DETAIL	AMOUNT
Salary & Wage Income – John (Husband)	\$100,000
Salary & Wage Income – Jane (Wife)	\$10,000
Car Details	
Current Value & FBT Base Cost	\$30,000
25% Depreciation (year one)	\$7,500
1 Year Lease Amount (per annum - GST Exclusive)	\$13,758
Running Costs (per annum)	
Fuel	\$2,500
Registration	\$800
Insurance	\$1,000
Repairs, Maintenance & Tyres	\$1,500
Total Running Costs (per annum)	\$5,800

OUTCOMES

DETAIL	NO ASSOCIATE LEASE		ASSOCIATE LEASE	
	JOHN	JANE	JOHN	JANE
Salary & Wage Income	\$100,000	\$10,000	\$100,000	\$10,000
Less: Salary Sacrificed Pre-Tax Lease Payments	-	-	\$7,758	-
Add: Lease Income Received	-	-	-	\$13,758
Less: Salary Sacrificed Pre-Tax Running Costs	-	-	\$5,800	-
Total Income	\$100,000	\$10,000	\$86,442	\$23,758
Less: Depreciation on car	-	-	-	\$7,500
Taxable Income	\$100,000	\$10,000	\$86,442	\$16,258
Tax Expense	\$24,632	-	\$19,640	-
Medicare Levy (2.00%)	\$2,000	\$200	\$1,729	\$325
Total Tax Payable	\$26,632	\$200	\$21,369	\$325
Total Income After Tax	\$73,368	\$9,800	\$65,073	\$23,433
Less: Vehicle Running Costs	\$5,800	-	-	-
Less: Salary Sacrificed After-Tax Lease Payments (ECM amount)	-	-	\$6,000	-
Total Income	\$67,568	\$9,800	\$59,073	\$23,433
Combined After Tax Income		\$77,368		\$82,506
Household Benefit		\$0		\$5,138

The above compares the position of John and Jane with and without the Associate Lease in place (given Jane is on a low income this example demonstrates a shorter lease period).

For the Associate Lease, John's Salary is used for the Lease Payments and Running Costs using a combination of both his pre-tax and post-tax income. While this reduces John's disposable income, Jane receives the Lease Payments and claims a deduction for depreciation on the vehicle. Overall Jane's disposable income rises and the household cash flow increases.

In this example, It brings their benefit from Associate Leasing to approximately \$5,000 in year one.

NOTE: (This example is indicative only and it is important that Employees and Associates ensure that other income and Government benefits are correctly treated).

BENEFIT APPLICATION PROCESS

A 7-step process is followed when applying for an Associate Lease Agreement.

1. Nominate an Associate and select a car(s) that the Associate owns, purchases or is gifted.
2. Contact Sheridan & Associates (S&A) to calculate Lease length and Lease payments to enable the production of an Impact Statement that outlines your potential cash flow benefit.
3. Once you are happy with the figures, S&A completes the AL Application forms and Lease Agreement/s that are then emailed back to you for signature collection.
4. Obtain Signatures from the Associate, the Employer and the Employee on the AL Agreement/s.
5. Scan, email or fax back to S&A the following:
 - o Application for Salary Packaging Form (if required)
 - o AL Application Form
 - o AL Agreement documentation
6. S&A check, sign and collate the documents and send to the Packaging Provider (e.g. SmartSalary)
7. The Packaging Provider does the rest by arranging Salary Deductions; setting up the regular lease payments to the Associate and ordering the Fuel Cards. They generally send the Employee a Package Confirmation Report verifying all details of their Salary Packaging arrangement.

ANNUAL LEASE PAYMENTS

The Annual Lease amount is made up of two components: interest and depreciation. An adviser can assist in calculating the lease payment, but reference should be made to market interest rates and standard depreciation terms.

Lease payments should be calculated in order to have the Associate make an acceptable return on capital on their investment in the car. It is expected that the Associate will make a taxable profit in each year, which means the lease agreement is operational in nature.

ANNUAL DEPRECIATION DEDUCTION

The standard depreciation rate is as follows (as per the ATO website):

The Annual Depreciation Deduction for this example is calculated using the following formula:

$$\begin{aligned}\text{Annual Depreciation Deduction} \\ &= \text{Cost Price} \times \text{Depreciation Rate} \\ &= \$30,000 \times 25\% \\ &= \$7,500\end{aligned}$$

It is important that the Associate consult with their financial adviser/accountant to ensure that depreciation is correctly calculated as the actual amount claimable can be influenced by how long the car has been held and whether previous depreciation claims have been made.

FRINGE BENEFITS TAX

The liability for FBT can be met in one of the following ways:

EMPLOYEE CONTRIBUTION METHOD

This method requires you to make an after-tax contribution to your employer equivalent to the taxable value of the vehicle. When you make such a payment, the ATO accepts that the taxable value of the vehicle is reduced to zero and therefore no FBT is payable. In effect, this method replaces the FBT rate of 47% with your own marginal rate of tax. This after-tax contribution is added to the pre-tax amount collected which will then be used to fund lease and running costs of your vehicle. The Contribution Method is suitable for all employees, regardless of their income.

EMPLOYEE CONTRIBUTION AMOUNT

The Employee Contribution Amount is equal to the Base Taxable Value of the Car multiplied by the statutory percentage using the following formula:

$$\begin{aligned}\text{Employee Contribution Amount} \\ &= \text{FBT Base Value} \times \text{Statutory Percentage}\end{aligned}$$

In the above example, the Employee Contribution amount would have been as follows:

$$\begin{aligned}\text{FBT Base Value} \times \text{Statutory Percentage} \\ &= \$30,000 \times 20\% \\ &= \$6,000\end{aligned}$$

FBT METHOD

Under this method, fringe benefits tax, running costs and base payments will be deducted from your pre-tax salary as per the below formula. This method is not suitable for those who are not in the top marginal tax bracket.

DATE CAR PURCHASED	DEPRECIATION RATE
Up to and including 30 June 2002	22.5%
From 1 July 2002 to 9 May 2006	18.75%
On or after 10 May 2006	25%

FBT PAYABLE

The formula for calculating *FBT payable* as per the FBT Method in any given year is:

$$\text{FBT} = \text{Taxable Value} \times 2.0802 \times 47\%$$

Where the *Taxable Value* is given by:

$$\text{Taxable Value} = \frac{A \times B \times C}{D}$$

A = FBT base cost of vehicle

B = Statutory Fraction as per table above

C = Number of days in FBT year where car was available

D = Number of days in FBT year (365 or 366)

REPORTABLE FRINGE BENEFITS AMOUNT (RFBA)

The Associate Lease Benefit may give rise to a Reportable Fringe Benefit Amount when the taxable value of the benefit is greater than zero. The RFBA is calculated using the following formula:

$$\begin{aligned}\text{RFBA} &= \text{Benefit Taxable Value} \\ &\quad \times \text{RFBA Gross Up Rate (1.8868)}\end{aligned}$$

This amount will be reported to the Employer after the end of each FBT Year. The Employer may then include this amount on an Employee's Payment Summary.

GOODS AND SERVICES TAX (GST)

Any Post-Tax contributions made by the employee under the lease arrangement that offset FBT are treated by the ATO as a consideration (or payment) for supply of the lease. As such, GST is required to be collected and remitted to the ATO on these contributions.

(Note: The GST is calculated from the allocated post-tax figure, however collected from pre-tax dollars).

INCOME TAX

The Associate may be entitled to an Income Tax Deduction for depreciation and any interest charged on finance obtained to purchase the car. For further information, please seek advice from a qualified accountant.

(Note: Sheridan & Associates staff are not authorised or licensed to provide specific taxation advice or information in addition to that stated in this document)

ASSOCIATE REQUIREMENTS

The Associate must meet the following requirements to be eligible for an AL Agreement.

- The Associate must have an Australian Business Number (ABN). An ABN can be obtained by either calling the Australian Taxation Office (ATO) (13 24 78) or registering online on the ATO website (<https://abr.gov.au/For-Business,-Super-funds---Charities/Applying-for-an-ABN/>)
- In order to simplify this benefit, it is a requirement that the Associate must NOT be registered for GST.
 - Since businesses with revenues in excess of \$75,000 per annum must be registered for GST, this means that the ABN Business income must be less than \$75,000.
- The Associate must be the owner of the car (regardless of whether the car is owned outright or financed). However, the car should be registered in the Employee's name.

CAR REQUIREMENTS

The car must meet the following requirements:

- The vehicle must qualify as a 'car' for Fringe Benefits Tax (FBT) purposes. The ATO defines the following types of vehicles (including most four-wheel-drive vehicles) as cars:
 - motor cars, station wagons, panel vans and utilities;
 - all other goods-carrying vehicles with a designed carrying capacity of less than one tonne;
 - all other passenger-carrying vehicles with a designed carrying capacity of fewer than nine occupants.
- There is no age limit to the vehicle
- There is no limit to the number of vehicles that can be on an Associate Lease at any one time.

FUEL CARDS

The salary packaging provider will normally supply fuel cards for all Associate Leased vehicles. For example, SmartSalary allows customers to select from one or more of the following fuel cards:

FUEL CARD	FEES (INC. GST)	FUEL PRICING	SPENDING LIMIT**
Caltex StarCard*	\$0.38 per transaction	Pump Price	\$1,400 per month
BP Plus Card	\$0.38 per transaction	Pump Price	No limit
Shell Card	\$0.37 per transaction	Pump Price	No limit

*The **Caltex StarCard** is accepted at all Caltex, Ampol and Woolworths/Safeway Plus Petrol outlets nationally.

**If the Spending Limit is ever reached, the card can be unlocked by contacting SmartSalary

OUR FEE STRUCTURE

Please find our standard fee structure for Associate Leasing work below:

FEE (INC. GST)	NEW CLIENT	EXISTING CLIENT
One New Lease	\$540.00	\$440.00
Two New Leases	\$600.00	\$480.00
One Renewal	-	\$380.00
Two Renewals	-	\$420.00

DISCLAIMERS

The details outlined in this benefit profile are subject to the provisions of an Employee's employment contract and the Employer's policy regarding Salary Packaging.

This Benefit Profile is based on taxation and other legislation that is current of the time. The profile contains general information only that is based on the continuance of current legislation and tax rulings and their interpretation.

The information in this Benefit Profile is not intended as professional financial or taxation advice.

OUR CONTACT DETAILS

If you further queries or would like to proceed with an Associate Lease, please do not hesitate to contact us.



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