

ACCOUNTING

What are the Accounting Entries for a Lease Payment?

Andrew's salary is \$5,000 per month and the monthly VIP lease payment is \$1,650 including GST. The salary deductions for the lease are:

Pre-tax Salary Sacrifice	\$1,000
GST Input Tax Credit	\$100
Post-tax Employee Contribution	\$550



Based on the above deductions the accounting entries are as follows:

Lease Creditor	Lease / Salary Expense	Salary Expense Account	Bank Account
3 (j) \$1,650 1 (c) \$1,650	1 (a) \$1,500 2 (e) \$1,000 2 (f) \$500	2 (d) \$5,000	5 (p) \$100 3 (l) \$1,650 3 (m) \$2,800 4 (o) \$650
Payroll Clearing Account	Payable / GST Claimable	PAYG Payable	
3 (k) \$2,800 2 (l) \$2,800	1 (b) \$150 2 (g) \$50 5 (q) \$100	4 (n) \$650 2 (h) \$650	

Journals

			Debit	Credit
Raise Creditor	1 a	Lease/Salary expense	\$1,500	
	b	GST Claim	\$150	
	c	Lease Creditor		\$1,650
Payroll Entry	2 d	Salary Expense	\$5,000	
	e	Salary Sacrifice		\$1,000
	f	Employee Contribution		\$500
	g	Employee Contribution - GST portion	\$50	
	h	PAYG		\$650
Pay Salary and Creditor	3 i	Payroll Clearing		\$2,800
	j	Creditor	\$1,650	
	k	Payroll Clearing	\$2,800	
Pay PAYG	l	Bank		\$1,650
	m	Bank		\$2,800
Claim GST	4 n	PAYG	\$650	
	o	Bank		\$650
	5 p	Bank		\$100
	q	GST Account		\$100
			\$11,850	\$11,850

Please contact your PDFA Novated Lease Consultant for further information on 1300 353 383.

PAYROLL

How do I recover the monthly VIP lease payments?

Every VIP lease payment is fully recoverable from the Employee's salary and the ATO. For every VIP lease a Payroll Advice is provided to the Payroll Contact. Payment of the lease cost to Platinum Direct Finance is monthly, but the Payroll Advice can be displayed in weekly, fortnightly or monthly figures.

The Payroll Advice breaks the payment up into three amounts. A pre-tax salary sacrifice, a post-tax employee contribution and a GST input tax credit. On rare occasions the post-tax employee contribution is replaced by a pre-tax FBT amount.

These monthly lease payment and payroll deductions remain constant over the duration of the novation unless there is a significant change in the actual running costs compared with what was budgeted. If the running costs is estimated to go over what was originally budgeted, the employee will be required to modify their lease to recalculate vehicle running budgets. A revised Payroll Advice will be issued upon modification to commence new lease deductions.

At the end of the lease the running cost budgets are reconciled. How do I adjust an Employee's pay to accommodate any reconciliation surplus or deficit?

This is quite a simple procedure but it does vary depending on the FBT treatment. For leases that use the:

STATUTORY METHOD AND HAVE A:

- **Reconciliation Surplus** – debit the GST to GST Payable and add the remaining amount to the Employee's taxable income.
- **Reconciliation Deficit – Budget Deficit** – credit GST to GST Payable and recover the remaining amount from the Employee's taxable income.

OPERATING COST METHOD AND HAVE A:

- **Reconciliation Surplus** – based on the business use percentage split the surplus into business and personal portions. For the business portion debit the GST to GST payable, before adding the remaining amount to the Employee's taxable income. Add the personal portion to the Employee's after tax income.
- **Reconciliation Deficit** – as with the surplus, split the deficit into business and personal portions. For the business portion credit the GST to GST payable, before deducting the remaining amount from the Employee's taxable income. Deduct the personal portion to the Employee's after tax income.

Please note for vehicles above the Luxury Car Tax (LCT) threshold (\$57,180) the above rules may not apply.

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FRINGE BENEFIT TAX (FBT)

What is Fringe Benefit Tax (FBT) ?

FBT is a business based tax charged on fringe benefits provided by an employer to an employee or associate and novated lease vehicles are a Fringe Benefit. FBT is fully recoverable from the employee's salary. The VIP lease works in harmony with fringe benefit and income tax legislation maximising the tax advantage received by the employee while minimising the administrative impact for the employer.



How is FBT Calculated?

There are two methods of calculating the FBT value (FBT is derived from the FBT value) for motor vehicles. These two methods are the Statutory and Operating Cost methods.

Statutory Method - The statutory method of calculating FBT is used by individuals with little or no business usage. To find the FBT value using the Statutory Method multiply the FBT Capital Value of the vehicle (on road cost less state charges (registration, CTP and stamp duty)) by the statutory percentage applicable to the kilometres travelled in the FBT year, table below :

Km/FBT Year	Stat. %
0 - 14,999	26%
15,000 - 24,999	20%
25,000 - 40,000	11%
40,001 +	7%

Operating Cost Method - The Operating Cost Method is used by individuals with high levels of Business Usage. To find the FBT value using the Operating Cost Method, multiply the personal usage (100% less the business usage %) of the vehicle by the GST inclusive cost of the VIP lease. A logbook record must be maintained for a 12 week period to substantiate business use percentage.

Alleviating the FBT Liability - Once the FBT value has been calculated the employer needs to alleviate the associated FBT Liability. This is done via one of two ways, the Employee Contributions Method (ECM) or by FBT Payable Method.

Employe Contributions Method (ECM) - The Employee Contributions Method (ECM) provides the greatest benefit for almost all employees and is the simplest for Employers to administer. To alleviate the Employers FBT liability simply deduct part of the VIP lease costs equal to the FBT Value from the employee's post-tax salary. This reduces the business' FBT liability to zero.

FBT Payable Method - The FBT payable method is the more traditional method of dealing with a company's car associated FBT liability and rarely used. To recover the applicable FBT liability simply deduct the FBT amount displayed on the Payroll Advice from the Employees pre-tax income.

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EMPLOYEE

What is the Vehicle Integrated Program (VIP)?

The Vehicle Integrated Program (VIP) is a fully maintained novated lease, a highly tax effective form of vehicle financing. It involves a novation agreement between an employee (you), your employer and a financier. This agreement allows a substantial proportion of the vehicle finance and the costs associated with owning a vehicle to be deducted from your pre-tax income. As a direct result, you will gain substantial tax-savings, boosting your disposable income.



What vehicle running cost budgets are included in a VIP lease?

- Car Finance
- Fuel
- Maintenance
- Tyres
- Comprehensive Insurance
- Vehicle Registration
- Compulsory Third Party (CTP) Insurance
- Australia-wide Road-side Assistance

What are the Major Benefits of a VIP lease?

- **INCOME TAX SAVINGS** – Each pay period a substantial portion of the car expenses are taken from your pre-tax income, reducing your taxable income and the amount of income tax you need to pay.
- **GST SAVINGS** – Your employer and the financier claims back significant portions of the GST on your behalf. Your employer is able to claim input tax credit for the GST on your lease payments. The financier is also able to claim back the GST on the purchase price of the vehicle, therefore you will finance the vehicle price GST exclusive up to the luxury limit of \$57,180.
- **Fixed costs** – The VIP lease payments are fixed for the duration of the lease and allow you to avoiding those nasty large annualised car costs. By fixing your car costs the VIP helps you budget your money.
- **End of lease tax-free profit** – At the end of your lease, if you sell or trade in your vehicle for a profit, this profit is tax free. It is not subject to Capital Gains Tax (CGT).
- **Convenience** – The registration, CTP and Comprehensive Insurance is renewed for you automatically. Your fuelcard is accepted at all service stations Australia-wide.

What do I do next?

1. If you haven't already spoken with PDFA, freecall 1300 353 383 to speak with one of our highly trained novated lease consultants. They will discuss your situation in detail and structure a VIP lease estimate specific to your circumstances.
2. If your employer doesn't have an existing relationship with PDFA you will need to approach the applicable person. With their permission a novated lease manager will liaise with them in order for you to access the VIP.
3. If you have decided on the new car, our Fleet Management Team will source the vehicle for you at the best price. Their bulk buying power access fleet discounts not available to the public, saving you time and money.
4. Once the vehicle has been sourced your novated lease consultant will liaise between you and the financier to arrange financial approval.
5. PDFA arrange payment and delivery. You are now in your VIP car!

Please contact your PDFA Novated Lease Consultant for further information on 1300 353 383.

EMPLOYER

How do Employers Benefit from Offering Fully Maintained Novated Leasing?

- **Add Salary Value:** The Employer is able to provide a service that reduces the Employee's taxable income. This results in an increased salary package for the Employee without it costing the Employer anything!
- **Attractive Staff Incentive:** By offering this service as a part of an Employee's package, Employers are better able to attract quality staff.
- **Reductions in Taxable Income Related Expenses:** By allowing novated leasing you can potentially reduce the company's payroll tax and workcover premiums.
- **Reduced Vehicle Responsibility:** Unlike the provision of a company car, responsibility of the vehicle rests with the employee.



How does the Vehicle Integrated Program (VIP) Work?

In order for a VIP lease to be set up, two agreements need to be put in place. The first is a finance lease between the Employee and financier taken out in the Employee's name. This is the car loan component of the VIP lease. The second is a novation agreement which is entered into by the financier, Employee and Employer to initiate the lease. This enables the VIP lease costs to be invoiced to the Employer and deducted tax effectively from the Employee's salary.

The lease costs are worked out over the duration of the lease and divided into equal monthly payments. These payments are recovered by the Employer from the Employee's salary and a portion of the GST from the ATO.

Platinum Direct Finance take care of all the associated paperwork and provide a detailed Payroll Advice detailing the payroll deductions specific to each VIP lease.

What happens if the Employee leaves?

Your Employee's VIP lease is fully portable, so if they leave, the lease leaves with them. Ensure that their final pay is held until the running cost budget reconciliation is received, as there may be a deficit to recover from their final pay. Please see the Payroll page for further information.

What happens if the Employee is overspending on their running costs budgets?

If a significant variance is forming in the budgeted running costs the Employee will be asked to recalculate their lease to modify the deficiency. A revised Payroll Advice is issued to begin deductions at the modified lease rental.



FULLY MAINTAINED NOVATED LEASE

What is a Fully Maintained Novated Lease?

A novated lease is a tax effective form of financing a vehicle. It involves an agreement between an employee, their employer and a financier. This agreement allows a substantial proportion of the vehicle finance and the costs associated with owning a vehicle to be deducted from the employee's pre-tax income.

As a result, the employee gains substantial tax savings and their employer is in the possession of a powerful employment incentive that does not cost them anything!

Which Vehicle Expenses are Included ?

- Car Finance
- Fuel
- Maintenance
- Tyres
- Comprehensive Insurance
- Vehicle Registration
- Compulsory Third Party (CTP) Insurance
- Australia-wide Road-side Assistance

How do Employee's Benefit from a Fully Maintained Novated Lease?

- **Pay Less Tax:** An extensive proportion of the car expenses are taken from the employee's pre-tax income therefore reducing the amount of income tax they pay.
- **Save on GST:** An employer is able to claim back a sizable portion of the lease associated GST on behalf of the employee.
- **Fixed Payments:** The lease payments are fixed for the duration of the lease. This allows the employee to avoid large annualised vehicle costs and allows more consistency in their monetary outgoings.

How do Employer's Benefit from offering Fully Maintained Novated Leasing?

- **Add Salary Value:** The employer is able to provide a service that reduces the employee's taxable income. This results in an increased salary package for the employee without it costing the employer anything!
- **Attractive Staff Incentive:** By offering this service as apart of an employee's package, employers are better able to attract quality staff.

What is involved from an Employer's Perspective?

- The employer recovers fixed monthly lease payments from the employee's salary in addition to a portion of the GST on behalf of the employee.
- The employer pays the monthly rental to PDFA.

Why Choose Platinum Direct Finance?

- **Best Financiers:** PDFA has access to Australia's best financiers offering competitive interest rates and finance.
- **Straightforward Procedure:** PDFA completely manages all transactions, payments and reporting for the novated lease. This management, along with the ease of fixed payments, ensures that employers are left with very little administrative work.
- **Specialist Assistance:** PDFA Novated Lease Consultants are extensively trained to maximise the many benefits novated leasing has to offer.

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