

## OVERVIEW OF FEDERAL BUDGET 2011 FBT AMENDMENTS AND IMPACTS ON SALARY SACRIFICING OF MOTOR VEHICLES

The 2011 Federal budget has delivered a change to the statutory fraction FBT treatment of motor vehicles, the subject of a novated lease.

It is amending the 4 tiered statutory fraction regime and replacing it with a single 20% flat statutory fraction to apply **REGARDLESS** of the number of kilometres travelled. However, there are transitional measures for novated vehicles travelling greater than 25,000 kilometres. These transitional measures are explained further in this overview.

This change will produce many positive outcomes for anyone considering a novated lease –

- ✚ It removes all the uncertainty about the benefit to be derived during any year
- ✚ ***It now makes the novated lease option very attractive to all vehicle owners who travel less than 15,000 klms in a year – this will mean many more employees, who previously believed it not worthwhile, will now adopt the benefit. In most cases, this change will more than double the tax saving to be obtained by this group of drivers.***
- ✚ For vehicles already travelling between 15,000 - 25,000 kms, there is no change to the benefit.
- ✚ It still rewards high klm drivers as the higher operating costs remain 100% deductible from pre tax wage / salary. Even though the total benefit for travelling greater than 25,000 klm is slightly decreasing as a result of this change, the novated lease still remains a very attractive savings option for high klm drivers. It remains highly likely that these drivers will continue to salary package their motor vehicle recognising that the benefit is still substantial.
- ✚ It removes the familiar negative comment around the issue of people driving 'unwanted' klm just to reach an FBT bracket – typically 25,000 klm.
- ✚ It will ultimately eliminate all cost penalties for not attaining a certain klm bracket (note: transitional factors still need to be considered by those driving greater than 25,000 kms)
- ✚ This modification was to be expected given it was a recommendation in the recent Henry Tax Review.

The reform will apply to vehicle contracts established after May 10, 2011 and as stated above will be phased in over a number of years for vehicles travelling in excess of 25,000kms.

Following is a summary of the changed FBT structures –

Distance	Existing Contracts	..... New Contracts entered into after 10 May, 2011 .....			
		From 10/05/2011	From 01/04/2012	From 01/04/2013	From 01/04/2014
0 - 15,000 kms	0.26	0.20	0.20	0.20	0.20
15,000 - 25,000kms	0.20	0.20	0.20	0.20	0.20
25,000 - 40,000kms	0.11	0.14	0.17	0.20	0.20
➤ 40,000kms	0.07	0.10	0.13	0.17	0.20