16 July 2013
IMPORTANT NOTICE

QUOTES, NEW ORDERS AND MID-LEASE CHANGE REQUESTS WILL BE IMPACTED BY FEDERAL GOVERNMENT’S PROPOSED FBT CHANGES – PLEASE READ:

The Federal Treasurer announced significant changes to FBT laws relating to vehicle leases on 16 July, including abolition of the statutory method of FBT liability calculation.

A fact sheet published by the Treasurer’s office indicated these changes will have an immediate affect, being applied to any new agreements and materially changed existing arrangements after 16 July. According to the fact sheet, any existing leases that are not changed will not be impacted.

LeasePlan and the Australian Fleet Lessors’ Association (AFLA) are actively seeking more information and detail from Treasury, the Government and the Tax Office to better understand and accommodate these proposed changes in our customers’ best interests.

In the short term:
- LeasePlan will put a temporary hold on all new novated vehicle order requests until it can verify with the customer that they understand the potential impacts on their lease after 1 April 2014.
- LeasePlan will put a temporary hold on mid-lease change requests until it can verify with the customer that they are aware of the potential impacts of a material change to an existing lease under the proposed changes.
- LeasePlan Online will be reconfigured immediately so that all quotes produced will calculate FBT liabilities based on operating cost method, rather than statutory method from 17 July.

Treasurer’s Fact Sheet:

A fairer treatment of car fringe benefits
A fairer treatment for FBT on cars

The Government will make the tax system fairer by ensuring the fringe benefits tax exemption for cars is targeted to actual use rather than including personal use.

This reform will remove the statutory formula method for both salary-sacrificed and employer-provided cars. This ensures a more level playing field for all workers by removing a tax concession for the personal use of a salary-sacrificed or employer-provided car.

People who use their vehicle for work-related travel will still be able to use a log book to ensure their car fringe benefit excludes any business use.

Recent advances in technology, such as cheap and easy-to-use car log book ‘apps’, make this much easier today than when these rules were originally introduced in 1986.

Many of these apps will let the GPS on a smart phone do most of the work for you and let you send the results directly to your employer or tax agent — no calculations required.

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The current system
Under the current car fringe benefits rules, a fringe benefit will arise where an employee is provided with a car for private use. A 'car fringe benefit' is valued using either the operating cost ('log book') method or the statutory formula method.

- Under the operating cost method, the car fringe benefit is the cost of running the car multiplied by the proportion of personal use of the car worked out by a log book.
- Under the statutory formula method, a person's car fringe benefit is the cost of the car multiplied by 20 per cent, regardless of actual personal use of the car.

The statutory formula method provides a significant tax concession for taxpayers using their car fringe benefit mainly for private travel, because it assumes a significant proportion of the use will be for business purposes.

Making the tax system fairer
This reform will remove the statutory formula method for both salary-sacrificed and employer-provided car fringe benefits for new contracts entered into after announcement, with effect from 1 April 2014.

Existing contracts materially varied after 16 July 2013 will also fall under the new arrangements. Existing contracts that are not varied will continue to have access to the existing statutory rate throughout the contract. All car fringe benefits for new leases will be calculated using the operating cost method from 1 April 2014.

The operating cost method is based on the actual business use of the car. Tax is only payable on the portion of operating costs attributable to private use.

Where there is significant private use, the operating cost method ensures an appropriate amount of tax is paid on the private benefit.

A tax subsidy for the private use of a car is no longer justified or appropriate.

Recent technological advances, such as car log book apps, make keeping a log book easier than ever, and have assisted employers to comply with their record-keeping obligations, making compliance much easier today.

Most people claiming car expenses will be unaffected
This reform will not affect the more than 3.6 million workers - including employees, the self-employed and sole traders - claiming deductions for work-related travel expenses when they use their own car for work reasons. The changes do not affect the existing exempt car benefit concessions that apply to certain uses of taxis, panel vans, utes and other non-car road vehicles.

Around two-thirds of employees that salary sacrifice a car earn over $100,000.

Less than one in 50 employees earning less than $100,000 are affected.

If an individual uses their vehicle for a significant amount of work-related travel, they will still be able to use the operating cost method to ensure their car fringe benefit excludes any business use of the vehicle. Fringe benefits tax will still only apply to the private portion of any benefit provided to an employee.

Employers who provide a work car to employees for occasional private use (for example, weekend travel) will continue to be able to use the operating cost method.