

A Guide to Salary Packaging a Novated Lease

(Public Benevolent Institution)

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Introduction

About The Salary Packaging People

The Salary Packaging People are an independent company who administer salary packaging on behalf of your employer. We are required to comply with statutory requirements and taxation legislation. All information sent to us is treated as strictly confidential.

About This Guide

This document is to be read as a guide to Salary Packaging a Novated Lease only.

We have made our best effort to explain the general subject matter however no warranty is provided regarding the contents of this document, its accuracy or currency. Any decision to Salary Package a Novated Lease should only be made after you receive the appropriate independent financial advice.

General Information

What is a Novated Lease?

A Novated Lease is a three-way agreement between an employee (you), employer and financier, which enables you to include a Motor Vehicle as part of your Salary Package.

You can therefore drive the vehicle of your choice that suits your lifestyle and fits within your personal budget.

Who is eligible for a Novated Lease?

The eligibility of a Novated Lease is largely dependent on your employer salary packaging policy, however generally a Novated Lease is for full time and permanent part time staff.

If you are a casual employee and want to get a new vehicle, there are alternative finance arrangements available to you through us.

How does it work?

The financier (Leasing Company) buys the vehicle chosen by you and leases it to you. You enter into a Lease Agreement with them for a specific term. You, your employer and the financier then sign an agreement called a Deed of Novation. In effect all three parties are agreeing that whilst you are an employee, your employer will make all the required payments for the Novated Lease on your behalf.

These payments are made by your employer, via The Salary Packaging People, after the amount for the Novated Lease is deducted from your salary package.

You are responsible for the operation and maintenance of the vehicle and you have the option to buy the vehicle from the financier at the end of the Lease term. More information on this is available later in this document.

Novated Lease Benefits

There are numerous benefits to including a Novated Lease as part of a Salary Package. These include obvious benefits like Tax and Vehicle Cost Savings through to immeasurable benefits like Cash Free and convenient driving and having control & flexibility.

Tax Savings

As a result of the signing of a Deed of Novation, for taxation purposes the financed vehicle is considered to be a company vehicle, even though the vehicle can be used exclusively for private purposes. As a result, you have some tax advantages not normally available with regular finance arrangements. Some of these are:

- No GST payable on the initial vehicle price. This is a result of the financier buying the car for you.
- GST credits are available on the vehicle operating costs, which includes fuel, maintenance, etc.
- Reduction in Income Tax due to the salary packaging of the Novated Lease

Vehicle Cost Savings

Due to the relationships in place between us and our suppliers, our buying power means you have access to:

- Purchase discounts on new vehicles
- Discounted vehicle service and maintenance costs

Cash Free & Convenient driving

Our Novated Lease program enables you to:

- Use our supplied fuel card to pay for all fuel and oil purchases
- Use our service and maintenance arrangements to pay the repairer directly
- Never retain receipts and invoices for any expenses paid directly by us
- Package all lease and operating costs into a single regular salary deduction, therefore no need to budget for renewable items like registration and insurance and regular expenses like fuel.

Control & Flexibility

The beauty of a Novated Lease arrangement, is that you can:

- Choose the vehicle you want to drive
- Choose to lease a new, pre-owned or demonstrator vehicle
- Take your vehicle with you if you change employers
- Allow others to drive your vehicle
- Use the vehicle for private purposes, e.g. towing, travelling interstate, etc.

Novated Lease comparison example

For the purpose of this comparison, we have based the calculations on the following:

Vehicle: New Mazda 3 Neo Automatic Hatchback
 Lease Term: 36 Months
 Annual Kilometres: 15,000
 Salary (Ex Super.): \$55,000
 Pay cycle: Fortnightly

Lease Inclusions: Lease Rental, Service & Maintenance, Tyre Replacement, Fuel, Registration Renewal, Comprehensive Insurance, Fees and Charges.

FBT Calculation: Employee Contribution Method (ECM)

	No Car in Package	Novated Lease in Package
Gross Salary	\$55,000.00	\$55,000.00
Less Pre-Tax Benefits	-\$15,900.00	-\$15,900.00
Less Pre-Tax Car Lease	\$0.00	-\$6,369.48
Taxable Income	\$39,100.00	\$32,730.52
Less PAYG Tax	-\$4,254.20	-\$2,760.62
Less Medicare Levy	-\$782.00	-\$654.61
Net Salary	\$34,063.80	\$29,314.29
Less Post Tax Car Costs	-\$11,289.83	-\$4,283.40
Take Home Pay	\$22,773.97	\$25,030.89

From the above calculations, the following results can be determined.

Fortnightly net cost to Novate this car: \$347.42
 Annual estimated benefit to Novate: \$2,256.92
 Estimated Benefit over the Lease Term: \$6,770.76

What's included in a Novated Lease?

Our Novated Lease product is structured to include the Lease rental payable to the financier and all the Vehicle Operating Costs.

How is the Lease rental calculated?

The Lease rental is calculated based on the total purchase price of the chosen vehicle, the lease term, the applicable interest rate and the market value of the vehicle at the end of the lease term. Further information about this is in the "General Lease Information" section of this document.

The lease of a new, used or demonstrator vehicle from a dealership or GST registered company attracts GST however the financier can claim the amount of GST from the ATO. Therefore, the Lease rentals are calculated on the GST exclusive cost of the vehicle.

The Lease rental covers the following costs:

- Vehicle purchase price including chosen options and accessories
- Any dealer delivery costs
- Vehicle registration/CTP costs on a new vehicle
- Vehicle Stamp Duty
- Lease Establishment Fee
- Personal Property Security Register Fee

Additional items such as Lease Protection Insurance and Comprehensive Insurance can also be included in the Lease rental.

Vehicle Operating Costs

All the vehicle operating costs can be included in the Novated Lease structure. These costs are treated as Budget items meaning that they are our estimates of the costs to operate the vehicle over the Lease term based on your estimate of the vehicle's annual kilometres.

The operating costs include fuel, service & maintenance, replacement tyres, registration renewal, comprehensive insurance renewal, Roadside Assistance and even incidental items such as car washes, globe replacement, glass breakage and mirror replacement costs.

As the Operating Costs are budget items, the actual costs incurred compared to the budgeted costs are continually monitored to ensure that you have the correct amount deducted from your salary to cover the expenses. Should there be a surplus balance at the end of the Lease term, the balance is refunded to you through payroll.

You have the ability to review and choose whether to include any of the budget items and amend the amounts budgeted after consultation with us. Effectively, it is your right to set the budgets at a level acceptable to you.

Fuel Card

Buying fuel is simple for you by using the supplied fuel card. You use the fuel card at the accepted fuel outlets without having to worry about having enough funds available on the card. Each month the card supplier sends us the bill and we deduct the amount payable to them from your Novated account.

Tyres, Service & Maintenance

We use our extensive repair network to ensure you receive the best value for money possible for the servicing and maintenance of your vehicle and any tyre repair or replacement.

You have access to:

- Any discounts on labour costs and parts from our network
- Our enforcement of any Warranty Claims
- Peace of mind that like for like manufacturer specific parts are used. This ensures that the vehicle warranty is not compromised
- Our ensuring that the repairer does not “over service” the vehicle and still maintain it to the highest possible standard, keeping their vehicle as safe as possible and at its optimum value.

Registration Renewal

You are the registered owner of the vehicle therefore the renewal notice is sent directly to you. The amount budgeted for renewal is an estimate based on either the initial registration cost, when a new vehicle is leased, or the amount paid at the previous renewal.

Comprehensive Insurance Renewal

Whether you choose our supplied comprehensive insurance or your own insurer, we can include a budget for the renewal based on the initial premium.

Roadside Assistance

It is very common now that manufacturers include Roadside Assistance with any new vehicle however this cover is often not transferable to a second-hand vehicle or is not valid for the entire lease period.

We can formulate a budget for the payment of the annual roadside assistance amount for your own membership or through our roadside assistance provider.

Incidental Items

As we don't know the precise details of what is to be included and the associated cost, we can establish a generic budget amount to cover incidental operating costs.

Please note that some items are not considered to be legitimate vehicle operating costs by the ATO therefore they are unable to be included in a Novated Lease. These items include but are not restricted to Road Tolls, Parking Expenses, Fines & Infringements costs and vehicle options or accessories fitted after the delivery of the vehicle. These items are therefore payable directly by you.

Tax Impacts of a Novated Lease

As with any Salary Packaging arrangement, there are potential tax implications that need to be considered and understood by you prior to commencing a Novated Lease.

Fringe Benefits Tax (FBT)

By having a Novated Lease, the costs are Salary Packaged through payroll deductions resulting in a reduction of the amount of Income Tax payable. However, the ATO deems that because you are provided a benefit from your employer for this arrangement, Fringe Benefits Tax (FBT) is applicable.

The calculation of FBT on a Novated Lease is different to the FBT calculations for other Salary Packaged items. For a Novated Lease, the FBT payable is calculated on the FBT base value of the vehicle, which is the purchase price of the vehicle less the cost of Stamp Duty and Registration. As a result, the inclusion of the Vehicle Operating Costs in a Novated Lease does not incur FBT.

To work out the FBT Taxable value of a vehicle, the FBT base value is multiplied by 20%, which is known as the Statutory Percentage. For example, the FBT Taxable Value for a \$25,000 vehicle is \$5,000. The FBT Taxable Value forms the basis of all the calculations associated with the taxation benefits of a Novated Lease.

Accounting for FBT in a Salary Packaging arrangement can occur in one of 3 ways:

1. Calculate the projected FBT liability and have this deducted from pre-tax deductions, or;
2. Include the grossed-up amount of FBT within your "Cap" (refer to next section), or;
3. Use the Employee Contribution Method (refer to following section) and reduce the FBT Taxable Value to zero.

Whichever method is chosen, we can supply the appropriate guidance and calculations to ensure you make a fully educated decision on the Novated Lease structure.

Capping Limit

Employees of Public Benevolent Institutions have an exemption from FBT up to a threshold or cap of \$30,000 grossed up. Grossed Up is defined as "the gross salary an employee would have to earn at the highest marginal tax rate to purchase the packaged benefit from post-tax dollars".

For cost of living expenses such as mortgage payments, loan repayments, etc. that are not subject to GST, the gross up factor used to calculate the capping limit is 1.8868. Therefore, an employee can package expenses to the value of \$15,900 during the current FBT year without incurring any FBT liability.

For a Novated Lease, the gross up factor to calculate the capping limit is 2.0802. Therefore, if you were to package a Novated Lease on a vehicle with an FBT base value of \$25,000, the grossed-up value would be \$10,401.00. This would mean that you would then be able to salary package only \$10,387.50 of benefits not subject to GST during the FBT year.

The following table clarifies this.

	A. Benefits with no GST	B. Gross Up Factor	C. Grossed Up Amount (A x B)	D. Novated Lease	E. Gross Up Factor	F. Grossed Up Amount (D x E)	Total Grossed Up Amount (C + F)
Scenario 1	\$15,900.00	1.8868	\$30,000.00	\$0.00	2.0802	\$0.00	\$30,000.00
Scenario 2	\$10,387.50	1.8868	\$19,599.00	\$5,000.00	2.0802	\$10,401.00	\$30,000.00

Therefore, to ensure you maximise the benefit of your Capping Limit, the FBT on a Novated Lease can be treated outside of the cap using the Employee Contribution Method (ECM). This enables you to have a Novated Lease, not incur any FBT liability and to continue salary packaging benefits that don't attract FBT to the full Capping Limit.

Employee Contribution Method (ECM)

The most popular way for an employee to Salary Package a Novated Lease is by using the Employee Contribution Method (ECM), which means that the combined total of the Vehicle Lease and Operating costs are paid by pre-tax and post-tax salary deductions.

The FBT legislation relating to a vehicle states that any post tax amount paid reduces the FBT Taxable value by the equivalent amount.

Therefore, to reduce the FBT Taxable Value to zero, a post-tax deduction equal to the FBT Taxable Value is made from your salary package each FBT year.

If you consider the scenario that a Novated Lease is established and the total annual cost to lease and operate the vehicle is \$12,000 with the FBT Taxable Value being \$5,000. The salary deductions for you would be \$7,000 from pre-tax and \$5,000 from post-tax.

The most common question regarding ECM is:

"Why would I want to make after tax payments for my vehicle when Salary Packaging is supposed to be about pre-tax salary deductions?"

The simplest answer to this question is that if you didn't make post tax payments for the vehicle and incurred an FBT liability the FBT rate would be 47%, which is the top marginal tax rate plus the Medicare Levy. To incur a tax rate of 47%, you would need to earn more than \$180,000 per annum.

Most employees have a marginal tax rate lower than 47% therefore they effectively pay FBT at their own marginal tax rate.

As there is no FBT Taxable Value, there is no Reportable Fringe Benefit therefore the Novated Lease does not adversely impact your Payment Summary at "tax time".

Days not Available

Sometimes during the Lease period your vehicle may not be available to you or others for private use therefore you do not have the availability of the benefit of a Novated Lease.

These instances usually occur if the vehicle is off the road due to accident or mechanical repairs.

It is very important to note these full days that the vehicle is unavailable as this will result in a reduction of the FBT Taxable Value of the vehicle. You will be required to sign a declaration at the end of each FBT year regarding this and provide the relevant documentation supporting this, when requested.

Establishing a Novated Lease

Deciding on a Vehicle

Most people, at a minimum, would already have an idea of the type of vehicle they want to Lease prior to requesting any Novated Lease information from us. They may even have a specific vehicle in mind and even agreed to a price with a dealer.

The above is no issue to us at all, but you should be aware that there may be some restrictions on the vehicle that can be subject to a Novated Lease.

You can choose to lease a new, pre-owned (used) or demonstrator vehicle providing the age of the vehicle does not exceed 9 years at the end of the Lease term. Therefore, if you lease a 5-year-old vehicle, the maximum Lease term would be 4 years.

You can Lease a vehicle sold by a private person however there are some additional requirements before settlement to ensure that nothing adverse occurs in the future. In all circumstances, the vehicle must meet and have documented Australian Compliance.

If you need any assistance in deciding on a vehicle, you can contact us directly and we'll arrange information and maybe even a test drive.

Sourcing a New Vehicle

Once you've decided on a vehicle, it's recommended that you contact us to discuss your requirements. We can use our extensive new vehicle supply network to source the best possible deal for you.

Our network ensures that all available discounts, bonuses and upgrades are available to you. We like to support local regional suppliers rather than using suppliers based in the Capital Cities.

You still have the choice of using your own supplier if you have one and you can negotiate a price with them. The only thing we recommend is that before you place an order on a vehicle that we check your deal to ensure you're getting the best possible.

If you choose to use our network, we'll make sure it's delivered to you with a full tank of fuel, fitted carpet mats and with window tint.

Leasing a Pre-Owned Vehicle

The leasing of a pre-owned or used vehicle is slightly more complex than a new vehicle. With a new vehicle you know that it has never been driven, has a manufacturer's warranty and that it has a recommended price. These factors all make it far easier to compare one vehicle to another.

With a pre-owned vehicle, it is virtually impossible to have 2 vehicles exactly the same even though they may be the same age with similar kilometres driven. Prices also vary substantially between vehicles.

We recommend that if you wish to Lease a pre-owned vehicle that you look at it, test drive it and have it inspected mechanically prior to agreeing to buy it.

We can assist with giving you a guide to the value of the vehicle based on its age and usage. We can also direct you to reputable suppliers should you be unable to source a vehicle from your own contacts.

Information in the Lease Proposal

Once you have decided on a vehicle and provided us directly with some relevant information, we will formulate a comprehensive proposal, which incorporates the following information:

Vehicle Description & Pricing

This section confirms the details of the vehicle you wish to lease so that you know exactly what is included and the pricing structure used for the remainder of the proposal.

Novated Lease Calculations

This section confirms your anticipated annual kilometres, the Lease term, the Lease residual value and your stated annual salary exclusive of Superannuation.

Based on the above, this section also details in full the cost to Lease the vehicle plus all the budgeted and itemised Vehicle Operating Costs.

Fringe Benefits Tax Calculations

This section details the basis of the FBT calculations and includes details of your employer's FBT status, the FBT calculation method used, the FBT Base Value of the vehicle, the FBT Taxable Value and the Gross Up Value of the vehicle.

Salary Comparison Calculations

This section fully details the impact of salary packaging a Novated Lease on your Salary. Based on the information in all the previous sections, this shows in detail the impact of Salary Packaging the Novated Lease on the Income Tax you pay, the impact on your other salary packaging items (if you include the Novated Lease in your Capping Limit) and the impact on your "Take Home Pay".

From these calculations, we show you the estimated annual benefit of including the Novated Lease in your salary package and the reduction in your net pay after all the deductions for the Novated Lease are taken into consideration.

If this Lease Proposal is acceptable to you, you will need to sign the proposal and send it through to us with the supplied forms to enable the Finance Approval process to commence.

We will be in contact to discuss the proposal with you and make any adjustments that you want to the supplied proposal.

Finance Approval

After you have agreed with the Lease Proposal, you will be required to complete the supplied application forms and send them to us together with some additional required information. This is usually a copy of both sides of your driver's licence, proof of your residence and 2 recent payslips. The financier may request additional documentation at a later date.

We then submit your application to the financier on your behalf within 1 business hour of receipt of the fully completed application. A decision on the application is normally provided on the same day as the application is submitted unless the submission occurs in the later part of the working day.

Once an approval has been provided by the financier, we advise you directly and then advise the supplier of the vehicle that an approval has been received and what your requirements are for delivery. We also request the required documentation, such as a Tax Invoice and banking details, directly from the supplier.

Once the supplier has sent the documentation to us, we can then prepare the documentation for you and your employer to sign.

Documentation

The documentation is produced in our office through our system link with the financier. Once produced, we send them to you with full signing instructions so that you can review and sign them prior to returning them to us.

The documentation consists of:

- Lease Agreement between you and the financier
- Deed of Novation between you, the financier and your employer
- Privacy Act Consent Form
- Statement of Assets and Liabilities
- Contract Terms & Conditions

On some occasions, our staff will be able to meet with you to have the documents fully signed.

We adhere fully with the "Commonwealth Anti-Money Laundering and Counter-Terrorism Financing Act 2006" and as a result there are some specific requirements for customer identification and documentation witnessing that require adherence. We specify any requirements for compliance when the documentation is sent to you.

Settlement & Vehicle Delivery

Around the scheduled vehicle delivery date, the supplier will provide us the final documentation and include the vehicle registration number. We marry this documentation with the signed documentation received from you and submit all of it to the financier.

The financier reviews the documentation and pays the supplier directly for the vehicle if all the documentation is in order. If there is anything amiss with the documentation, the financier advises us and we in turn provide this information to you.

Once all the documentation is reviewed and endorsed by the financier, they pay the supplier for the vehicle. The financier sends a remittance advice to us and the supplier, who then contacts you directly to arrange delivery.

What Happens After Delivery?

Documentation

Following settlement, the financier signs the Lease Agreement and the Deed of Novation as required.

The financier sends a copy of the fully signed Lease Agreement to you for your records. They also send a fully signed Deed of Novation to you and your employer.

In addition, we will send you a Welcome Kit with all the relevant information about servicing and maintaining your vehicle as well as our contact details with any queries or amendments to your lease.

Novated Lease Salary Deductions

Within 24 hours of the settlement of your Novated Lease, we advise your employer of the required salary deductions for the Lease and the required commencement date of the deductions.

Depending on the timing of the Novated Lease settlement, you can expect the first deduction to occur in the pay period immediately following the settlement or the one following. You should monitor your salary closely at this stage and if the deductions haven't commenced, contact us directly.

Fuel Card

As soon as we are advised of the registration number of your car, a fuel card is ordered for you and will be specific to your new vehicle.

It takes up to 10 business days for the card to be received and remitted to you. In the time between the delivery of your vehicle and the receipt of the fuel card you will likely need to refuel the vehicle. If you do, please retain your receipt and submit it to us and we will reimburse you from your salary package.

Vehicle Maintenance & Tyre Replacement

Immediately following the delivery of your vehicle, you will be enrolled in our Vehicle Management program. The finer details may change over time in line with process improvements however full current instructions on what you need to do when having your vehicle serviced or maintained will be included in the Welcome Kit. Up to date program information will also be available on our website.

Registration Renewal

For a new vehicle, you will have 12 months of registration on your new vehicle. The vehicle will be registered in your name and with your postal address therefore you can expect to receive the registration renewal notice approximately 1 month prior to the expiry date.

You can either send us a copy of the renewal notice and we will pay the relevant authority directly and send you a receipt or you can pay the Authority yourself and request a reimbursement from us of the amount paid.

For a pre-owned vehicle, we are not able to pay directly or reimburse you for your registration renewal if the registration is due with 3 months of the commencement of the Lease. If the registration is due more than 3 months after the commencement of the Lease, the same process as a new vehicle registration renewal occurs.

In all cases, the reimbursement will occur only if there are enough funds held in your Novated Lease account to cover the cost of the renewal.

Tracking your vehicle usage

As part of our Vehicle Management program, we will continually monitor your Novated Lease account to ensure that you are travelling in accordance with what you initially estimated and that your actual expenses on your vehicle are in line with the established budgets.

Should there be any discrepancy that is consistent over a period of 6 months, we will be in direct contact with you to discuss and suggest a mutually beneficial remedy.

This may involve an amendment to your salary deductions but rest assured that this can only occur with your specific written approval.

General Lease Information

Lease Terms

You can choose a Lease Term range of 12 to 60 Months.

Lease Residual Values

ATO regulations stipulate that you are not permitted to own the vehicle outright throughout the life of the lease.

The ATO regulations state that a residual needs to be a percentage of the original vehicle value based on the term of your lease.

The current residual value guidelines are:

Lease Term (Months)	Residual Value (%)
12	65.63%
24	56.25%
36	46.88%
48	37.50%
60	28.13%

The residual value is considered as the price payable to the financier at the end of the Lease to buy the vehicle from the financier. As a result, should you wish to buy the vehicle at the end of the lease (or upon early termination of the Lease) the residual value payable will need to have GST added.

Acceptable Vehicle Types

Most employer's policies state that you can Lease a New, Used or Demonstrator vehicle for a leased value up to Luxury Car Tax Limit, which is currently \$57,581.00. This is subject to credit approval from the financier.

According to the ATO, the following types of vehicles (including four-wheel drive vehicles) are considered cars under the FBT Legislation and are therefore acceptable for a Novated Lease.

- Motor cars, station wagons, panel vans and utilities (excluding panel vans and utilities designed to carry a load of one tonne or more)
- All other goods-carrying vehicles designed to carry less than one tonne
- All other passenger-carrying vehicles designed to carry fewer than nine occupants.

Should you want to lease a vehicle outside of the above parameters, you will need to contact us directly to discuss.

End of Lease

Prior to the scheduled end of your Lease Term, we will be in contact to advise that your Lease is due to expire. Between that time and the Lease end date, you need to decide whether you will:

- Retain the vehicle and extend the Novated Lease for a further period
- Change over to a new vehicle with a new Novated Lease
- Retain the vehicle and buy it from the financier by paying the residual value + GST.

Whichever method is chosen, we will guide you through the process to ensure that the Lease is finalised by the end date.

Should you choose either option 1 or 2 above, we will reconcile your actual expenses against the amount received from your salary deductions. If there is a surplus balance, it will be refunded to you through your payroll. If there is a shortfall, we will be in contact to determine the best method for the payment.

You may also wish to terminate your Lease prior to the Lease End date. Should you wish to do this, you will need to contact us directly to discuss your requirements and for guidance through the process.

What happens if I Leave My Employment?

If you leave your employment, either voluntarily or involuntarily, the Deed of Novation between you, your employer and the financier is terminated, and you become directly responsible for the payment of your Lease rental to the financier and the Vehicle Operating Costs.

If you involuntarily leave your employment, you may be entitled to claim against your Lease Protection Insurance, if you included this in your original Novated Lease structure.

If you have left your employment to start with a new employer, you can transfer your Lease to a new Novated Lease arrangement with your new employer. You need to be aware though that you may need to cover the Novated Lease rental and the Vehicle Operating Costs until there are enough funds received from your new employer's salary deductions.

We will reconcile your actual expenses against the amount received from your salary deductions with your original employer. If there is a surplus balance, it will be refunded to you through their payroll. If there is a shortfall, we will be in contact to determine the best method for the payment.

Independent Financial Advice

It is recommended that you seek independent financial advice on the make-up of your salary packaging. Please ensure that your financial advisor is familiar with salary packaging.

Please contact The Salary Packaging People on 03 5229 4200 or info@salarypackagingpeople.com.au with any queries and to arrange the set-up of this benefit.

You can also enquire through our website www.salarypackagingpeople.com.au