



## Salary Sacrificing a Car Explained

You cannot claim a tax deduction for a car you have salary sacrificed even though you make an after tax contribution. This is because even with a novated lease the car is considered held by your employer, so it is not yours to claim.

If you are not in the maximum tax bracket you should make an employee contribution to cover the fringe benefit you receive otherwise FBT is payable as if you were in the maximum tax bracket

Unless you are in the maximum tax bracket there will be a pre tax amount and a post tax amount on your payslip if the salary packaging of the car is organised correctly. The pre tax amount is what it is costing the employer to provide you with the car less your employee contribution. The post tax amount is your employee contribution which is taxed at your marginal tax rate so that no FBT is payable at the maximum tax rate.

### How the FBT is Calculated:

The ATO take the cost of the vehicle and multiply it by 20% as an arbitrary measure of how much the use of that car is worth to the employee. Then they gross it up (basically double it) to take into account the fact that an employee in the maximum tax bracket would have to earn nearly twice as much as this to first pay tax and then provide the car to themselves. If you make an employee contribution it needs to be that 20% of the value of the car to reduce the benefit to zero.

Note after 4 FBT years the value of the car that the 20% is applied to, is reduced by 1/3<sup>rd</sup>. FBT years end 31<sup>st</sup> March.

If the car has a lot of tax deductible use then it is worth the employee keeping a log book but not to claim it in their own tax return. Instead take it to the person doing the employer's FBT calculation and persuade them to use the log book method rather than the 20% statutory method to calculate the taxable benefit of the car. This should bring down the amount subject to FBT and as a result bring down the after tax contribution. Once you have achieved that, the next step is to argue the pre tax contribution should be less because the car is not just being used for private purposes and the employer should be covering the portion used for work.

### Electric Vehicles:

There is currently a bill before Parliament to make electric vehicles exempt from FBT. For more information <https://bantacs.com.au/Jblog/when-to-buy-an-ev/#more-1042>