USING AN ASSOCIATE LEASE TO BOOST FAMILY INCOME

FRINGE BENEFITS TAX

An associate lease is a **tax effective way** to acquire a vehicle while boosting the income earned by the family.

HOW THIS IS **ACHIEVED**

The following 4 steps outline how this is achieved:

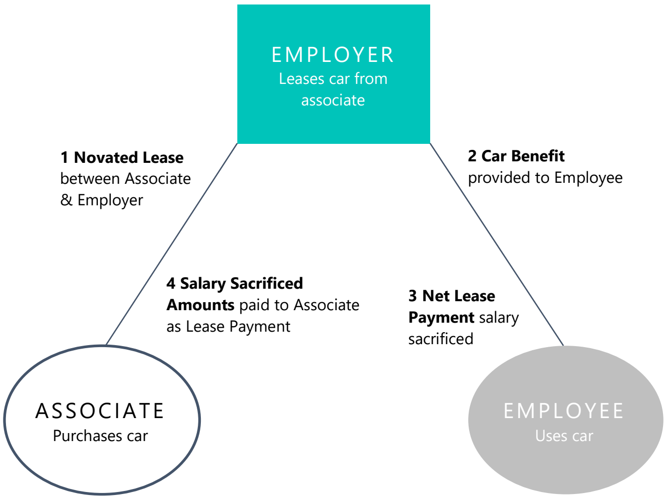
1. An associate of an employee (i.e., usually their spouse) purchases a car from an arm's length party using their own cash reserves;

2. The associate then leases the car to the employee's employer, who then provides the same car back to the employee as a car fringe benefit. Any FBT payable in relation to the car fringe benefit is calculated in the usual way under either the Operating cost or Statutory formula method; and

3. The employee is required to salary sacrifice the GST-exclusive amount of any car expenses (including the lease or other payments made to the associate of the employee), as well as any FBT that is payable by the employer in relation to the car fringe benefit; and

4. The associate of the employee then includes any lease (or other related) payments made to them by the employer as assessable income and claims the appropriate deductions with respect to the leased car against this income.

The **flow of transactions required** to execute the associate lease, is illustrated below:



MEET **JERRY AND BETH**

The best way to show how an associate lease can boost family income is with an example, meet Jerry and his wife Beth below.

Assumptions

DETAIL	AMOUNT
Salary & Wage Income – Beth (Wife)	$200,000
Salary & Wage Income – Jerry (Husband)	$30,000
Interest Income – Jerry (based on 2.5% of $100,000 term deposit)	$2,500
Car Details	
Purchase price	$40,000
Depreciation (year one)	$6,000
Lease Amount (per annum - GST Exclusive)	$7,500
Running Costs (per annum)	
Fuel	$5,200
Registration	$800
Insurance	$1,000
Repairs & Maintenance	$1,500
Total Running Costs (per annum)	**$8,500**

For working out the benefits of the associate lease we will assume that **Beth & Jerry** have no other deductions to offset against their salary and wage income.

Outcomes

	STANDARD NOVATED LEASE		ASSOCIATE LEASE	
DETAIL	BETH	JERRY	BETH	JERRY
Salary & Wage Income	$200,000	$30,000	$200,000	$30,000
Add: Lease Income Received	-	-	-	7,500
Add: Interest Income	-	$2,500	-	$1,500
Total Income	**$200,000**	**$32,500**	**$200,000**	**$39,000**
Less: Salary Sacrificed Lease Payments	$7,500	-	$7,500	-
Less: Depreciation on car	-	-	-	6,000
Taxable Income	**$192,500**	**$32,500**	**$192,500**	**$33,000**
Tax Expense	$63,707	$2,922	$63,707	$3,027
Less: Tax Withheld by Employer	$67,232	$2,842	$67,232	$2,842
Tax Refund / (Payable)	$3,525	($80)	$3,525	($185)
After Tax Income	**$128,793**	**$29,578**	**$128,793**	**$35,976**
Combined After Tax Income		**$158,371**		**$164,769**

IMPACT ON JERRY, THE ASSOCIATE

Whilst **Jerry's** interest income has reduced (to reflect the $40,000 spent on buying the new car) the after-tax income for the group is $6,398 higher by executing the associate lease. This is because the return on leasing the car is higher than the return achieved by investing in the term deposit.

As the car is being used to generate assessable income (i.e. lease income), depreciation of the car becomes a deduction for Jerry to offset against his income.

We do want to point out that the general tax avoidance provisions in Part 4a may be applied to this strategy. However, the example above clearly illustrates that the primary reason for executing this strategy was to maximise after tax cash flows so in our opinion is outside the scope of Part 4a.

However, if **Jerry** obtained arm's length finance to purchase the car, Part 4a may apply, because the lease income he received would be simply on paid to his finance company. As such, there would be no significant increase in after tax cash flows, just the tax benefits.

IMPACT ON BETH, THE EMPLOYEE

The last thing to address for Jerry and Beth is the FBT impact on **Beth** as she is receiving a car benefit from her employer. This can be reduced to nil, if Beth covers the running costs of the car herself and is illustrated below:

DETAIL	NO SALARY PACKAGING
Purchase Price of Car	$40,000
Taxable Value (20% of purchase price)	$8,000
Less: After Tax Employee Contributions	-
Fuel	$5,200
Registration	$800
Insurance	$1,000
Repairs & Maintenance	$1,500
Total Running Costs	**$8,500**
Remaining Taxable Value	**($500)**
FBT Payable	**-**

HOW IT AFFECTS BETH'S EMPLOYER

As the remaining taxable value is less than nil, there are no FBT issues for **Beth's employer**. It is important to note that if the running costs fall below the taxable value amount in any FBT year then Beth should physically pay the difference to her employer to ensure no FBT issues arise.

Finally, the benefits of Beth salary sacrificing her car in the first place are outlined here:

DETAIL	NO SALARY PACKAGING	WITH SALARY PACKAGING
Salary & Wage Income	$200,000	$200,000
Less: Salary Sacrificed Lease Payments	-	$7,500
Taxable Income	**$200,000**	**$192,500**
Tax Expense	$67,232	$63,707
Less: Tax Withheld by Employer	$67,232	$67,232
Tax Refund / (Payable)	-	$3,525
After Tax Income	**$132,768**	**$128,793**
Less: Car Running Costs		
Finance Payments	$7,500	-
Fuel	$5,200	$5,200
Registration	$800	$800
Insurance	$1,000	$1,000
Repairs & Maintenance	$1,500	$1,500
Total Running Costs	**$16,000**	**$8,500**
Income After Tax & Car Expenses	**$116,768**	**$120,293**

By salary sacrificing Beth's new car, she has increased her income after tax and car expenses by $3,525.

WANT TO **KNOW MORE?**

If you believe an associate lease would be beneficial to you and would like more information on how they work, please contact your advisor at Stone Accountants today.

Stone Accountants & Advisors

a Suite 25, 50 New Street, Ringwood 3134
p 03 9870 7247
e admin@stoneaccountants.com.au