

# NOVATED LEASE PROCEDURE

## SCOPE

This procedure applies to all eligible staff members employed by the University on its Australian campuses.

## PROCEDURE STATEMENT

The purpose of this procedure is to provide flexible remuneration options to staff and provides the opportunity for staff to salary package certain items. One item available to be salary packaged is a motor vehicle (novated lease). The University has two providers who offer novated leasing services to eligible staff.

The University strongly recommends that staff seek independent financial advice prior to entering into any salary packaging arrangements including financing a motor vehicle through a novated lease. Staff enter into novated lease arrangements at their own risk and are responsible for making their own independent enquiries about the financial and legal implications associated with a novated lease. Individual circumstances vary and no staff member should rely on the contents of this procedure without first obtaining such advice.

### 1. Overview of novated leases

#### Novated finance lease

- 1.1 A novated finance lease is an arrangement between an eligible staff member, the University and the novated lease provider. The staff member arranges to lease a motor vehicle from the lease provider. Some of the staff member's lease obligations are then novated to the University, for example, the obligation to pay the lease provider the rental instalments. The rental instalments are paid directly by the University to the lease provider from the staff member's salary.
- 1.2 Under a novated finance lease, most of the risks and costs associated with owning a motor vehicle remain with the staff member. Ownership of the motor vehicle remains with the lease provider.
- 1.3 If a staff member's employment with the University ceases, the University's obligation to make the lease repayments ends and all remaining lease obligations revert to the staff member.
- 1.4 Staff members may lease one or more new or used motor vehicles. The motor vehicle must be arranged with, and is subject to approval by, the novated lease provider and the University.
- 1.5 Staff may take out a novated lease with either of the following providers:
  - [Custom Fleet](#); or
  - [nlc](#)

#### Lease calculation methods

- 1.6 Staff who enter into a novated lease may choose to do so using either the Employee Contribution Method (ECM) or the Pre-Tax Method. The lease provider will assist staff members to determine the most appropriate method for a staff member's individual situation.

#### Employee Contribution Method (ECM)

- 1.7 ECM allows staff to make pre-tax and post-tax contributions towards the operating cost of the motor vehicle, thus reducing or eliminating the Fringe Benefits Tax liability. (See section 3.1). Fuel and vehicle maintenance costs (repairs, servicing, etc.) are then paid for with a fuel card, according to a pre-calculated overall running cost estimate.

#### Pre-Tax Method

- 1.8 This method incorporates all vehicle costs plus an amount for FBT and is wholly taken from pre-tax salary. This method may benefit staff members who are on the highest individual income tax rate.

## 2. Eligibility

- 2.1 All fixed-term and continuing staff are eligible for salary packaging and to include a novated lease vehicle in their salary packaging arrangements (subject to approval from the lease provider and the University).
- 2.2 Staff are responsible for investigating and arranging a novated lease with the relevant novated lease provider. The University's involvement is limited to confirming with the lease provider whether the staff member is eligible to salary package a novated lease, and, if so, entering into a novation agreement in order to pay the rent instalments to the lease provider from the staff member's salary.
- 2.3 Staff intending to enter into a novated lease agreement must hold a driver's license that is recognised as valid and current in Victoria.

### University approval

- 2.4 To ensure correct administration of the University's procedure the novated lease provider will not place an order until there is agreement in writing from the University that a staff member is eligible and approved to enter into a novated lease.

### Transfer of existing leases

- 2.5 Where a new staff member has an existing novated lease (arranged with their previous employer), and they wish to bring that novated lease across to the University, the staff member will need to make a request with the University's novated lease providers. Whether an existing novated lease will be transferred to the University will be assessed on a case by case basis by the novated lease provider, and subject to final approval by the University.

## 3. Payroll deductions

- 3.1 Upon settlement of a novated lease between the staff member, the lease provider and the University, the novated lease provider will forward the relevant paperwork to Payroll Services (Monash HR) to establish the fortnightly payroll deductions from the staff member's salary. Fortnightly payroll deductions from the staff member's salary will then commence from the next available pay period and continue for the duration of the lease as agreed between a staff member and the novated lease provider.

### Salary sacrifice calculation

- 3.2 The salary sacrifice calculation will include:
  - lease finance/rental instalments;
  - estimated running costs (fuel, registration, maintenance and servicing, road service membership, comprehensive insurance and accident management);
  - lease provider administration fees;
  - university administration fees; and
  - Fringe Benefits Tax (FBT).
- 3.3 The salary sacrifice calculation may vary as follows:
  - The lease finance component will remain fixed for the duration of the lease (adjusted if needed, based on lease agreement).
  - The running cost component will be reviewed regularly against the actual costs incurred. The novated lease provider will contact a staff member to review and re-cost their package where the discrepancy recorded is outside the agreed balance figure.
  - The FBT component will be reviewed and reported on an annual basis for the duration of the lease and may be adjusted at the end of the FBT year (31st March) if required.

### Fringe Benefits Tax (FBT)

- 3.4 FBT is a tax imposed on the provision of employment benefits. Because a motor vehicle under a novated lease is a fringe benefit made available with employment, while the amount sacrificed pre-tax to pay for the vehicle benefit is not subject to normal PAYG income tax, components of the vehicle benefit are subject to FBT.
- 3.5 Any FBT liability incurred by the University as a result of a staff member's novated leasing arrangements will be recovered from the staff member in full.

### Administration fees

- 3.6 The novated lease provider will apply administration fees for all leases entered into (including re-financing of existing leases). These fees will be included in any quote provided by the novated lease provider and will form part of the fortnightly lease repayments.
- 3.7 In addition, the University will deduct \$12.50 per fortnight per vehicle. For other salary packaging arrangements the University will deduct a flat rate of \$5.10 per fortnight.

## Contingency provision

- 3.8 The University strongly recommends that staff consider taking out a contingency provision whereby staff contribute an additional agreed amount to the novated lease provider which is designed to buffer against cost increases (e.g. the price of fuel) over the life of the lease and avoid negative lease end balances. At the end of the lease any unused contingency funds will be refunded as part of the reconciliation process.

## 4. Insurance

### Vehicle insurance

- 4.1 All novated lease vehicles must be comprehensively insured for the full insurable value of the vehicle for the entire duration of the novated lease arrangement. The lease provider will require confirmation of insurance prior to the settlement of the vehicle. The lease provider can assist with the provision of insurance if required. For more information contact the lease provider.
- 4.2 On request, the staff member must provide the University with evidence of comprehensive insurance.

### Redundancy cover

- 4.3 The University strongly recommends that staff consider their options with regards to products intended to protect staff who have a novated lease and whose position is made redundant. Such products may be at an additional cost and are not compulsory.

## 5. General running of vehicle

### Tolls / E-Tags

- 5.1 Road toll costs are the staff member's direct responsibility and cannot be included in the novated lease agreement. If a motor vehicle is made available for business use, staff are required to purchase their own E –Tag or set up a City Link account and ensure it has sufficient funds for any business use. Staff can then seek reimbursement from the University for the business use component.

### Fines, penalties or traffic violations

- 5.2 Fines, penalties and traffic violations are the staff members' direct responsibility and cannot be included in the novated lease agreement.

### Safety

- 5.3 The University expects all staff to take care for health and safety in the use of privately owned and leased vehicles irrespective of whether the vehicle is being used privately or for business purposes.
- 5.4 The novated lease agreement contains obligations regarding up-keep, servicing and maintenance of the motor vehicle.

### Business use

- 5.5 Staff can elect to use their novated lease vehicle for business use where authorised by the University.
- 5.6 Reimbursement of mileage is made in accordance with the [Monash University Enterprise Agreement \(Academic and Professional Staff\) 2014 Clause 77.10](#) where any private vehicle including a novated lease vehicle, is used for business purposes, and is subject to any applicable taxation.
- 5.7 Business mileage cannot be claimed in a staff member's personal tax return for a novated lease vehicle as the vehicle is deemed to be a University vehicle for tax purposes.

## 6. Leave provisions

### Paid leave

- 6.1 Staff may continue to use their vehicle while on full paid leave such as annual or long service leave, and as such all salary sacrificing arrangements will continue as normal. All terms and conditions relating to this procedure should be complied with while on leave.

### Unpaid leave and a novated lease

- 6.2 Application for unpaid leave must be made in accordance with the University's HR policies and procedures as outlined in the [Special Leave procedure](#).
- 6.3 Staff who have a novated lease arrangement seeking to take unpaid (special) leave must submit an [Application for Special Leave form](#) to Monash HR at least 4 weeks prior to the date of commencement of leave.

- 6.4 It is the staff member's responsibility to ensure that they have made the necessary arrangements to meet their novated lease requirements when on unpaid (special) leave from the University. Any staff member who takes unpaid leave, and as a result has inadequate earnings to satisfy their novated lease requirements, will have their novation agreement cancelled in accordance with the termination provisions of the novation agreement. Monash HR will notify the lease provider in circumstances where there is no income to cover the cost of the lease. Cancellation of the novation agreement will result in all lease obligations reverting personally to the staff member. This will include the obligation to make all future monthly lease rental payments and the obligation to meet the residual value payment. The lease provider will notify the staff member of the cancellation of the novation agreement.

## 7. Termination of employment

### Notice of termination/resignation

- 7.1 Notice of termination must be made in accordance with the University's [Employment Conditions policy](#) as outlined in the relevant workplace agreement and [Workplace Policies and Procedures](#) (WPP).
- 7.2 For the purposes of novated vehicle lease procedure only, staff who have a novated lease arrangement with the University are required to give at least 4 weeks' notice of resignation to Monash HR.

### Lease obligations

- 7.3 If the novation period ends prior to the expiry of the lease (for example, where the staff member ceases employment with the University, for whatever reason) the obligations to pay the rent instalments and residual value (as well as all other lease obligations) revert to the individual/former staff member.
- 7.4 The individual must make the appropriate arrangements with the novated lease provider. Some options that may be available are:
- continuing the lease with finance payments being made directly to the novated lease provider. Payments made under this arrangement need to be made from post-tax income and inclusive of GST. Please note that at this time the individual becomes responsible for all expenses associated with the vehicle;
  - request that a new employer takes over existing lease,
  - re-novating the existing lease with a new employer, and
  - pay out the remainder of the finance lease. A payout quote can be requested of the novated lease provider at any time.

### Termination of employment by the University

- 7.5 If a staff member's position is terminated by the University in accordance with cl. [48.23](#) and [49.4](#) of the Monash University Enterprise Agreement (Academic and Professional Staff) 2014 resulting in an early termination of the lease, subject to the staff member returning the motor vehicle to the lessor in reasonable condition (and the staff member's compliance with the terms of the motor vehicle lease generally), the University will pay on behalf of the staff member the following:
- any early termination fees payable to the lessor;
  - any outstanding lease repayments up to a maximum of 12 months, payable to the lessor in excess of any redundancy cover; and
  - any shortfall represented by the difference between the residual value of the motor vehicle and its sale price, payable to the lessor that is in excess of the shortfall covered by any redundancy cover.
- 7.6 For the purposes of such payments, staff must immediately notify the University and provide copies of any relevant information and documentation received by the staff member from the lessor in respect of the early termination of the lease.
- 7.7 These provisions do not apply where the staff members employment contract with the University is:
- not renewed for any reason;
  - terminated as a result of a Voluntary Early Separation;
  - terminated on the grounds of unsatisfactory performance or/and serious misconduct as defined in the relevant enterprise agreement; and
  - terminated on the grounds of ill health.

## DEFINITIONS

ATO	The Australian Taxation Office.
Fringe Benefits Tax (FBT)	Tax payable by the University to the Commonwealth Government on some categories of benefits provided to staff, and the year runs from 1 April to 31 March.
Gross salary	Salary before tax.
Motor vehicle	Generally considered as a car as per ATO guidelines.
Relevant workplace agreement	The Enterprise Agreement that applies to a particular staff member. <ul style="list-style-type: none"> <li>• <a href="#">Monash University Enterprise Agreement (Academic and Professional Staff) 2014</a></li> <li>• <a href="#">Monash University Enterprise Agreement (Trades and Services staff - Building and Metal Trades Staff) 2009</a></li> <li>• <a href="#">Monash University Enterprise Agreement (Trades and Services Staff - Catering and Retail, Cleaning and Caretaking, and Miscellaneous services staff) 2005</a></li> </ul>
Salary packaging	Provided for under the Relevant Workplace Agreement. It refers to any arrangements made by the University to provide benefits in lieu of salary payments. Salary packaging arrangements must comply with relevant taxation legislation and rulings as varied from time to time.
Taxable income	Income that an employer is required to withhold from tax.

## GOVERNANCE

Parent policy	<a href="#">Pay, benefits and entitlements</a>
Supporting schedules	
Associated procedures	<ul style="list-style-type: none"> <li>• <a href="#">Salary Packaging</a></li> </ul> <p><b>Procedure forms</b></p> <ul style="list-style-type: none"> <li>• <a href="#">Novated Lease – Indemnity and Agreement form</a></li> </ul>
Legislation mandating compliance	
Category	Human Resources
Approval	Chief Human Resources Officer as delegate of the Chief Operating Officer - 3 February 2018
Endorsement	Director, Workplace Relations - 3 February 2018
Procedure owner	Director, Recruitment, Remuneration & Global Mobility
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Content enquiries	<a href="#">ask.monash</a> or phone Monash HR on (03) 990 20400