Luxury Vehicle Adjustment

sgfleet

What is a Luxury Vehicle Adjustment?

The definition of a luxury car for the purposes of the Luxury Vehicle Adjustment is any passenger or 4WD car whose market value is greater than the applicable luxury car depreciation limit at the time of its acquisition.

Any novated lease car whose market value exceeds the luxury car depreciation cost limit is required to be accounted for as a loan transaction, albeit for income tax purposes only. This has the effect that the employer will claim depreciation and interest on the deemed loan for income tax purposes rather than the lease payments, which would otherwise be the case. This income tax adjustment results in the employer claiming less deductions as the amount of depreciation deductions available will be capped by the luxury car depreciation limit. Accordingly, the employer will have less deductions than would ordinarily be the case, which will increase their assessable income. The Luxury Vehicle Adjustment is designed to compensate employers for the extra tax they will incur because their deductions will be less when the novated lease is a luxury car. The Luxury Vehicle Adjustment is therefore included in an employee's salary package, which is calculated when the employee enters into their salary sacrifice arrangement with their employer.

The following example deals with an employer which is paying tax at the standard company tax rate of 30%.

Luxury depreciation limits

These are set by the ATO and are periodically updated and changed. The date of effect of any new limits is commonly 1 July.

You can access the limits for the current year and previous limits on the ATO website, or refer to this table.

Financial Year	Car Limit
2023–24	$68,108
2022–23	$64,741
2021–22	$60,733
2020–21	$59,136
2019–20	$57,581

Calculation example

SG Fleet currently uses the following formula to calculate the Luxury Vehicle Adjustment:

("Non-Claimable Capital Portion" – "Allowable Tax Depreciation") x Tax Rate / (1 – Tax Rate) / Term

Where: "Non-Claimable Capital Portion" = Amount Financed – Residual Value "Allowable Tax Depreciation" = Car Limit – "Deemed Sale Proceeds" (being Residual Value x Car Limit / Amount Financed)

The formula can also be expressed as follows: (Amount Financed – Residual value – Car Limit + Residual Value x Car Limit / Amount Financed) x Tax Rate / (1-Tax Rate) / Term

Example:

If:		**Then**
Amount Financed	$75,782.32	Non-Claimable Capital Portion = $75,782.32 - $26,523.81 = $49,258.51
Residual Value	$26,523.81	Deemed Sale Proceeds = $26,523.81 x $68,108.00 / $75,782.32 = $23,837.80
Term	48 Months	Allowable Tax Depreciation = $68,108.00 – $23,837.80 = $44,270.20
Car Limit	$68,108.00	This means: ($49,258.51 - $44,270.20) x 30% / (1 – 30%) / 48 = $44.54 In this example, SG Fleet would advise a notional Luxury Vehicle Adjustment of $44.54 per month be applied to the employee's salary package.
Tax Rate	30%	

SG Fleet does not advise any adjustment required for early termination of the lease. SG Fleet does not purport to provide legal, financial or tax advice. Employers and employees should seek independent advice in regard to these aspects of novated leasing. Employers are able to vary the Luxury Vehicle Adjustment amount advised by SG Fleet, if considered appropriate.