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Employee Contribution Method (ECM)

Why it could save you money on your novated lease!

What is it?

Under a novated lease arrangement, the private use of a car by an employee is generally considered a car fringe benefit, which attracts Fringe Benefits Tax (FBT). Although the employer is technically liable for the FBT, this is typically passed on to the employee. To help reduce or eliminate this liability, the ATO allows the use of the Employee Contribution Method (ECM). Through the ECM, the employee makes after-tax contributions toward the running costs of the vehicle. These contributions directly reduce the taxable value of the car fringe benefit, thereby eliminating the associated FBT liability.

Why does this matter?

Without using the ECM, FBT on the novated lease is applied at 47%—being the top marginal income tax rate of 45% plus the 2% Medicare levy—applied to the taxable value of the car. However, by using the ECM:

- You make after-tax contributions equivalent to 20% of the car's taxable value,
- These after-tax contributions offset the FBT completely,
- You avoid paying tax at the top marginal tax bracket (i.e., currently 47%) and instead only contribute at your personal income tax rate, which is often lower, resulting in potential tax savings.

Example

- Let's say your income tax rate is 32%.
- Without ECM, FBT would apply at 47% on the car's taxable value.
- With ECM, you just make an after-tax contribution at 20% of the car's value, which reduces the FBT liability to zero.

In short, by using ECM you avoid the 47% tax rate and your own lower tax rate applies.

For most people, this leaves more money in their take-home pay.





This table shows three different ways you could pay for your novated lease:

- 1. Employee Contribution Method (ECM)** – You make a payment from your after-tax pay (your normal tax rate), which cancels out the FBT.
- 2. FBT (Statutory Formula)** – You don't make an after-tax contribution, so a pre-tax FBT (Statutory Method) applies at the top marginal (47%) rate.
- 3. No Salary Packaging** – You pay for the car out of your normal after-tax income, with no tax benefits.

Item	ECM	FBT	No Salary Packaging
Gross Income	135,000	135,000	135,000
Minus Pre-Tax Salary Deduction	8,111	17,811	0.00
Minus Non-Deductible depreciation	0	0	0
Minus Fringe Benefits Tax (FBT)	0	10,403	0
Equals taxable income	126,889	106,786	135,000
Minus Income Tax (Including Medicare Levy)	31,392	24,959	33,987
Equals net Income	95,497	81,827	101,013
Minus Vehicle Running Cost Incl. GST	0	0	19,552
Minus Post-Tax Salary Deduction (Employee Contribution)	10,640	0	0
Equals Cash In Hand After Tax and Vehicle Expenses	84,857	81,827	81,461
Estimated Advantage From Salary Packaging	3,396	366	0

*The net income calculation in this example is based on a number of assumptions and the estimate does not include any applicable Medicare levy surcharge, Higher Education Loan Program, or Student Financial Supplement Scheme liabilities.

Fringe Benefits Tax (FBT) exemption for electric vehicles

A car fringe benefit is exempted from FBT when an employer provides private use of an eligible electric car, provided that all of the following conditions are met:

- The car is a zero or low emissions vehicle, such as a battery electric vehicle (BEV), hydrogen fuel cell vehicle or a plug-in hybrid electric vehicle (PHEV). Note: From 1 April 2025, PHEVs will generally not qualify for the exemption unless covered by a pre-existing financially binding commitment.
- It is first held and used on or after 1 July 2022.

- It is made available for private use to a current employee (or their associate).
- No amount of Luxury Car Tax has become payable on the supply or importation of the car.

This exemption applies to vehicles provided under salary packaging arrangements, and includes associated running costs such as registration, insurance, servicing and charging.