



Employee Contribution Method (ECM)

Why it could save you money on your novated lease!

What is it?

Novated leases are usually subject to Fringe Benefits Tax (FBT). FBT is a tax employers pay on certain non-cash benefits provided to employees. Although an employer is liable for FBT, the employer usually recovers this cost from their employee. Fortunately, the amount payable by an employee can be reduced to zero using the ATO's Employee Contribution Method (ECM), which reduces the car's taxable value to \$0.

Why does this matter?

Normally, the Fringe Benefits Tax (FBT) on a novated lease is worked out using the Statutory Formula, which effectively charges tax at the highest income tax rate plus Medicare levy (currently 47%). This means you're paying tax as if you were in the top bracket, even if you're not. But if you use ECM:

- You contribute from your after-tax pay calculated at 20% of the car's value for FBT,
- These after-tax payments cancel out the FBT completely,
- Instead of paying an amount equivalent to a 47% tax rate, you simply contribute at your lower personal tax rate.



The following 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 personal income tax rate), which cancels out the FBT.

2. FBT (pre-tax) – You don't make an after-tax contribution, so FBT is deducted from your pre-tax salary at the top marginal (47%) tax rate.

3. No Salary Packaging – You pay for the car out of your 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
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. Amongst other things, the estimate does not include any applicable Medicare levy surcharge, Higher Education Loan Program, or Student Financial Supplement Scheme liabilities.

Fringe Benefits Tax (FBT) & novated leases EV note (FBT exemption)

FBT does not apply when an employer provides private use of an eligible electric car that meets all of the following:

- The car is a zero- or low-emissions vehicle (battery EV or hydrogen fuel cell; PHEVs generally cease to qualify from 1 Apr 2025 except limited transitional cases).
- It is first held and used on/after 1 July 2022.
- Provided to a current employee (or their associates).
- Luxury Car Tax has never been payable on the car.
- The exemption applies even when the car is provided under a salary packaging/novated arrangement. (Although FBT-exempt, the benefit is usually reportable for RFBA purposes.)
- The Government has flagged a review by mid-2027.