

What is a Luxury Car Charge (LCC)?

The definition of a luxury car for the purposes of the Luxury Car Charge is any passenger vehicle (as defined by the ATO) whose market value is greater than the applicable luxury car depreciation limit at the time of purchase. It is important to note that the depreciation limit is different to the luxury car tax threshold (ie the vehicle cost at which luxury car tax starts being charged) which means that it's possible to have a luxury car charge without having to pay luxury car tax, as the depreciation limit is below the LCT threshold. Note, for comparison purposes we have included the LCT thresholds in the below table, however the highlighted column for depreciable car limit is the focus of this document.

Any novated lease car whose market value exceeds the luxury car depreciation cost limit is required to be accounted for as a loan transaction for income tax purposes. 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.

This income tax adjustment results in the employer claiming less 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 (due to the cap), which will increase their assessable income. The Luxury Car Charge is designed to compensate employers for the extra tax they will incur because their deductions will be less than under a non-luxury lease

The Luxury Car Charge is therefore included as a deduction in an employee's salary package, which is calculated when the employee starts their salary sacrifice arrangement with their employer. You will see the additional deduction for the Luxury Car Charge on your StreetFleet quote analysis and on the final payroll advice.

The following example deals with an employer which is paying tax at the standard company tax rate of 30%. It is worth noting that "not for profits", who do not pay any company tax, will not have to compensate themselves with a luxury car charge.

Luxury depreciation limits

These are set by the ATO and are periodically updated and changed, usually on 1 July each year.

You can access the limits for the current year and previous limits on the ATO website or refer to the following table:

Financial year	Depreciable Car limit	LCT Threshold - non fuel efficient* cars	LCT Threshold - fuel efficient* cars
2022 - 23	\$64,741	\$71,849	\$84,916
2021 - 22	\$60,733	\$69,152	\$79,659
2020 - 21	\$59,136	\$68,740	\$77,565
2019 - 20	\$57,581	\$67,525	\$75,526
2018 - 19	\$57,581	\$66,331	\$75,526
2017 - 18	\$57,581	\$65,094	\$75,526
2016 - 17	\$57,581	\$64,132	\$75,526

* A fuel-efficient car has a fuel consumption that does not exceed seven litres per 100 kilometres as a combined rating under the vehicle standards in force under section 7 of the *Motor Vehicle Standards Act 1989*.

Calculation example:

StreetFleet currently uses the following formula to calculate the Luxury Car Charge:

$$(\text{Total nominal depreciation} - \text{Total allowable Tax Depreciation}) \times \text{tax rate} / (1 - \text{Tax Rate}) / \text{Term}$$

Please note that we do not allow for any deemed profit on sale in our calculation (deemed sale value – nominal balance).

Example:

If:	
Depreciable amount	\$115,724.95
Residual Value (ex GST)	\$54,545.45
Term	36 Months
Car limit	\$64,741
Tax Rate	30%

Then:
Total nominal Depreciation = depreciable amount – residual $= \$115,724.95 - \$54,545.45 = \$61,179.50$
Total Allowable Tax Depreciation = Car Limit – Nominal balance of the vehicle based on term (using diminishing returns method, calculated separately) $= \$64,741 - \$27,312.61 = \$37,428.39$
This means: Total luxury car charge: $(\$61,179.50 - \$37,428.39) \times 30\% / (1 - 30\%) = \$10,179.04$ <ul style="list-style-type: none"> Annual luxury car charge: $\\$10,179.04 / 3 = \\$3,393.01$ Monthly Luxury car charge: $\\$3,393.01 / 12 = \\282.75 Fortnightly Luxury car charge: $\\$3393.01 / 26 = \\130.50
In this example, StreetFleet would advise a notional Luxury Car Charge of \$282.75 per month be applied to the employee's salary package. Please note that payment deferrals will affect the LCC calculation

StreetFleet does not advise any adjustment required for early termination of the lease. StreetFleet does not purport to provide legal, financial or tax advice and our quotes and the above is for illustrative purposes only. Employers and employees should seek independent advice regarding these aspects of novated leasing. Employers can vary the Luxury Car Charge amount advised by StreetFleet, if considered appropriate under another method. If the employer chooses to make this deduction, the luxury car charge is retained by the employer and is not paid to StreetFleet.