

NOVATED LEASES



EMPLOYEE INFORMATION BOOKLET

Global Contractor Management Solutions Pty Ltd
T/As CXC Global

Ph 03 9860 0600
1300 PRE TAX
1300 773 829
Fax 03 9860 0699
Email info@enlist.com.au
Web www.enlist.com.au

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1. INTRODUCTION

Global Contractor Management Solutions Pty Ltd T/As CXC Global (“CXC”) is proud to offer all permanent internal employees and external contract employees in Australia an opportunity to participate in the corporate novated lease program.

This booklet has been specifically written to help employees understand the concept of salary packaging and novated leases and to outline CXC policies in relation to this program.

A novated lease is a financial obligation for which an employee holds ultimate responsibility. CXC recommends that employees seek independent financial advice and ensure that they understand the terms and conditions of the lease agreement and taxation issues before they make any commitments.

CXC has appointed **Enlist Pty Ltd** (Enlist) as its partner to administer the novated lease program. Enlist are specialists in salary packaging, novated leasing and fleet management. Employees are encouraged to contact Enlist for a free personal consultation and quote.

There is no obligation for employees to participate. The key objective for CXC is to ensure that employee remuneration structures remain flexible, fair and competitive.

2. KEY BENEFITS

CXC has chosen to introduce a novated lease salary packaging program primarily due to the numerous benefits and possible tax savings that employees can obtain from such an arrangement. By improving remuneration conditions CXC is able to stay at the forefront of best practice policies and ensure that staff retention and satisfaction remain high.

Some of the key benefits that can be achieved by employees include the following:

- Reduced income tax;
- GST savings on vehicle purchase price;
- GST savings on running cost expenses;
- Access to corporate fleet discounts when purchasing new motor vehicles;
- Access to servicing and maintenance discounts through select merchants;
- Flexibility and choice – cars, merchants, insurance companies and lease terms;
- Access to free vehicle sourcing service;
- National fuel and maintenance network;
- Fixed deductions each pay period, regardless of actual expenses incurred from day to day (*Enlist fund negative balances throughout lease period at no cost*);
- Direct and permanent access to personal consultants; and
- Full cost transparency and reconciliation.

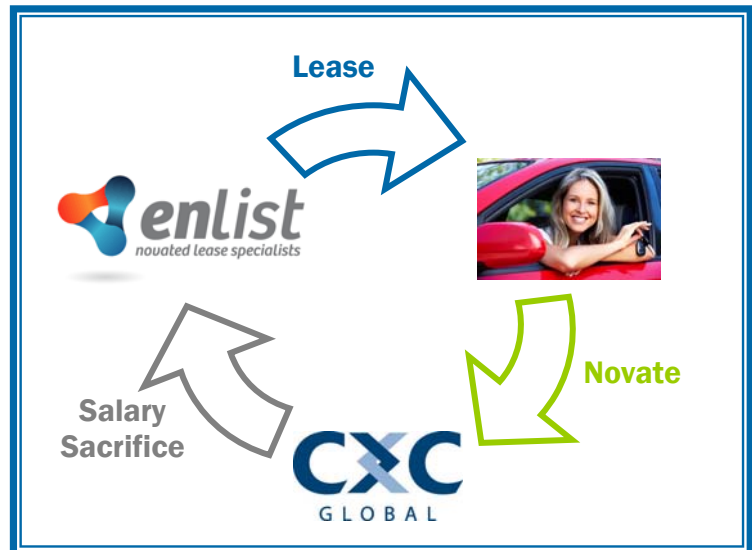
N.B. Tax savings and benefits will vary for each employee, depending on personal circumstances such as gross incomes, annual kilometres, cost of vehicles and lease periods.

3. NOVATED LEASE STRUCTURE

A novated lease is a three-way agreement between CXC, the employee and Enlist. There are two separate parts to a novated lease; a primary lease agreement and a deed of novation.

A primary lease is a contract between the employee and Enlist. The lease is a fixed monthly rental agreement over a nominated period with a lump sum final payment (residual) at the end of the contract.

A novation deed is a separate agreement between all three parties that sits behind the primary lease. A deed of novation transfers obligations of the lease (with exception of the residual) from the employee to CXC for duration of the employment period or until novation deeds are cancelled or until maturity of the lease period, whichever is first.



Lease Period	Minimum Residual
12 Months	65%
24 Months	55%
36 Months	45%
48 Months	35%
60 Months	25%

Employees can choose any lease period between 12 months to 5 years. Each lease period must have a residual payout in accordance with the Australian Taxation Office (ATO) IT28 guidelines. The ATO guidelines refer to expected depreciation rates of vehicles and define the minimum residual amounts permissible for each respective lease period. It is possible to set residual values higher but not lower than the amounts set out in the table.

When CXC enters into a novated lease agreement the monthly rental costs are met by CXC and a salary sacrifice provision is deducted from the employee for an equal dollar value.

Lease agreements are deemed to be a taxable supply which means that GST is included in the monthly rentals. Given that payments are met by CXC it becomes possible for CXC to claim input tax credits (ITC) for the GST. The GST savings are passed on entirely to employees (i.e. salary sacrifice provisions exclude GST).

To qualify, employees will need to meet the following criteria;

- Be eligible, as defined by CXC policy;
- Demonstrate a track record of stable employment;
- Provide evidence of repayment capacity;
- Demonstrate a sound financial position with good credit history

Each finance application will be treated on its own merits. Enlist reserves the right to decline finance, where in its opinion alone, the criteria set out above has not been met.

4. SALARY SACRIFICE PROVISIONS

All costs relating to the operation of a vehicle, including FBT costs (if applicable), are included in the employee's salary sacrifice provisions. The provisions are deducted each pay period and remitted to Enlist where they are credited into the employee's Salary Package Account.

A budget for fixed salary sacrifice provisions is calculated by Enlist and accepted by the employee at the start of a novated lease arrangement. Salary sacrifice provisions are based on:

- total number of kilometres the employee expects to travel each year;
- make and model of the vehicle;
- fuel type (i.e. unleaded, premium, LPG or diesel);
- the purchase price of the vehicle;
- the lease period;
- annual expected costs averaged over lease period for fuel, maintenance, tyres, insurance, registration, car washes and auto club membership*;
- administration fees; and
- Fringe Benefits Tax (FBT) or GST for post tax contributions (PTC), depending on the preferred FBT model adopted under the salary package arrangement (refer to section 8 below).

** Employees need to advise Enlist if they wish to include provisions for car washes and auto club membership. These provisions are not mandatory requirements.*

During consultation, employees are offered an opportunity to discuss and negotiate the allocation of uncertain expense provisions such as fuel and maintenance.

Once salary sacrifice provisions have been accepted by the employee the lease can be finalised and the salary sacrifice deductions will commence from the following pay period. A Payroll Deduction Authority Report will be supplied by Enlist for employees to sign in order to accept the agreed salary sacrifice costs.

Each pay period thereafter CXC will deduct the agreed salary sacrifice allocation and remit the relevant amount to Enlist, who in turn pay the monthly lease rentals and all vehicle running expenses including reimbursements to employees.

Where actual expenses differ significantly from the budgeted salary sacrifice costs on an on-going basis throughout the lease period, the salary sacrifice budget can be adjusted. Enlist will discuss all such required adjustments directly with employees and arrange for a new Payroll Deduction Authority Report to be signed by employees before the changes are processed through payroll.

In the event that an employee incurs an unexpected expense for which a provision was not allocated in the original salary sacrifice budget, the employee may be entitled to make an additional one-off pre-tax salary sacrifice to cover the cost of the expense and it can then be claimed back as a reimbursement or paid with the Motorpass card. This means that unexpected vehicle expenses are effectively paid from pre-tax salary and the employee does not lose the associated tax benefits.

Employees need to be aware that the following costs do not constitute running expenses, and cannot be salary packaged. It is the employee's responsibility to personally meet the following costs:

- Infringements and fines
- Capital improvements to the vehicle after a lease has commenced (e.g. mag wheels, premium sound system, etc)
- Car parking
- Drivers license fees
- Tolls & E-tag

5. FUEL & MAINTENANCE

Enlist provide a Motorpass Card for each salary packaged motor vehicle. This card must be used to purchase fuel, lubricants, services, repairs, tyres and car washes at **some 11,000 merchants** nationally.

Fuel, lubricants and car washes can be purchased at almost any service station including BP, Shell, Mobil, 7Eleven, Coles Express, select Caltex outlets plus many independents.

Services, repairs, tyres and consumables (e.g. batteries) can be purchased at leading car dealerships and reputable franchises such as Bob Jane T-Marts, Beurepaires, Goodyear Auto Service Centres, Kmart Tyre & Auto Service, O'Brien and Ultratune.

Discounts for servicing and repairs will be available from most of the reputable merchants mentioned. Discounts will generally vary between 10% and 20% off RRP and will be passed on to employees in full.

When using the Motorpass Card employees must provide an accurate odometer reading to the merchants. The odometer readings will be tracked by Enlist and used to calculate kilometre projections. The projections will be included in monthly Account Statement Reports to help employees stay abreast of their nominated FBT statutory brackets and avoid unpleasant surprises at the end of each FBT year (31 March).

Employees must use the Motorpass Card where-ever possible, however it is understood that there may be occasions when the card has been left at home or merchants do not accept the card. In such instances employees can pay for expenses directly from their own pocket and seek reimbursements from Enlist. Reimbursement claim forms can be downloaded from Enlist website at www.enlist.com.au or can be located on CXC intranet site.

It is mandatory for Motorpass Cards to be returned to CXC or to Enlist at the conclusion of a lease or upon early termination of employment, whichever is first. Failure to return the Motorpass Card will invariably delay the ability to reconcile the final balance of the employee's Salary Package Account.



6. COMPREHENSIVE INSURANCE

Employees are legally responsible for their vehicle to remain comprehensively insured at all times.

CXC permit employees to choose any reputable insurance company for comprehensive motor vehicle insurance or they can request for Enlist to arrange comprehensive insurance.

If comprehensive motor insurance is arranged by Enlist then the annual premium will be paid directly by Enlist at the start of the lease and upon each annual renewal date.

If comprehensive insurance is arranged by the employee the annual premium must be paid directly by the employee and reimbursements claimed from Enlist. To claim reimbursements employees will be required to complete a Reimbursement Claim Form, attach a copy of the tax invoice (policy schedule) or receipt and submit the documents to Enlist.

N.B. Tax invoices and/or receipts will be used by Enlist to validate the expense reimbursement amount and also used to claim input tax credits (ITC) for the GST component. Where it is not possible to claim ITC for GST then it will not be possible to credit the respective GST back into the employee's Salary Package Account.

In the event of an accident employees are advised to remember the following:

- Never admit fault;
- Call police where-ever possible;
- Record important details such as license number, name, address, phone, vehicle model and registration; &
- Take name and contact phone from any witnesses (if possible).

Although there is generally no provision included for insurance excess costs, Enlist will permit employees to claim a reimbursement for this expense and respectively debit the amount against the Salary Package Account.

7. GAP INSURANCE – OPTIONAL

Enlist offer an optional GAP Insurance product which employees can choose to include or exclude at their own discretion. The premium is paid up front to the insurer by Enlist and then capitalised into the monthly lease rentals.

This product is designed to give employees peace of mind about meeting financial obligations in the event of a total loss where Comprehensive Motor Insurance may leave them out of pocket.

GAP insurance covers up to a maximum **\$15,000** difference between the comprehensive motor insurance payout (i.e. market value) and the total amount outstanding on the lease contract at date of loss.

An additional \$2,000 cover is also provided for direct or indirect expenses incurred as a result of total loss of the vehicle. This benefit can cover expenses including, but not limited to hire car costs, personal effects, excess or motor premium cost for the new replacement vehicle.

8. REGISTRATION & COMPULSORY THIRD PARTY (CTP) INSURANCE

Novated lease motor vehicles are registered in the name of the employee. It is the employee's legal responsibility to ensure that his or her vehicle remains registered at all times.

For new motor vehicles the first year registration is normally paid by the motor vehicle dealer and included in the total purchase price.

Annual registration renewals can be sent to Enlist or paid directly by the employees and reimbursements claimed from Enlist. To claim reimbursements employees will be required to complete a Reimbursement Claim Form, attach a copy of the registration renewal notice or receipt and submit the documents to Enlist.

Certain states, such as NSW, require drivers to arrange their own CTP Insurance (green slips). Where applicable employees must arrange their own CTP insurance and submit reimbursement claims to Enlist along with the registration papers.

9. VEHICLE PURCHASING OPTIONS

Enlist endeavour to offer absolute flexibility where-ever possible including choice of vehicles. Recognising that vehicle preferences are personal and subjective decisions, Enlist will allow salary packaging for the following:

- Any make and model;
- New and used vehicles;
- Any price in excess of \$10,000 including luxury vehicles;
- Vehicles purchased from private vendors;
- Residual refinances; and
- Sale-and-leaseback for vehicles which the employee may already own.

Enlist offer a FREE vehicle sourcing services for new vehicles via a preferred dealer network. Corporate fleet discounts will be available for most new vehicle models. All discounts and rebates are passed on to employees in full.

Note: Luxury vehicles are defined as any vehicle with a lease value exceeding the Luxury Lease Threshold set by the Australian Taxation Office (ATO). The current luxury lease threshold is \$57,466 excluding GST. This amount is reviewed annually and may be adjusted from time to time by the ATO.



Luxury leases attract an additional cost as a result of a non deductible cost imposed on CXC. The non deductible cost for luxury leases will be included in the employee's total salary sacrifice provisions.

For more information employees are encouraged to contact Enlist.

10. FRINGE BENEFIT TAX (FBT)

FBT is a corporate tax levied on an employer by the ATO when the employer provides its employees with non cash benefits in lieu of cash salary. The current FBT rate is 46.5%, being equal to the highest marginal income tax rate.

A separate figure for "Reportable Fringe Benefits" appears on employee Group Certificates. Income tax is not payable on the reportable fringe benefit amount; however there may be some impact on the calculation of social security or other statutory entitlements.

In most instances FBT is charged on the total cost of a benefit item; however a select group of benefits qualify for FBT concessions or exemptions. A motor vehicle is one such benefit that qualifies for FBT concessions.

11.1 Statutory Cost Method

The Statutory Cost Method calculates an FBT concession based on the purchase price of a vehicle. This simply means that the concession (known as the "Statutory Fraction") is levied against the vehicle price and the FBT rate (46.5%) is then charged on the reduced amount rather than the full price of the vehicle.

For FBT purposes the price of a vehicle (known as the "Cost Base Value") is considered to be the market value of the vehicle when it is originally provided to an employee as a benefit.

- **For purchases from motor vehicle dealers:**

Cost Base Value = total vehicle purchase price including GST less stamp duty, registration and compulsory third party (CTP) insurance.

- **For sale and leaseback vehicles:**

Cost Base Value = current market value of the vehicle

- **For re-financed lease vehicles:**

Cost Base Value = the value when the vehicle was originally provided by CXC as a benefit. A one-off reduction of 33.33% can be applied to the Cost Base after the vehicle has been held for four (4) full FBT years.

The Statutory Fraction is represented as a percentage. There are four statutory percentages, each applicable to one of 4 pre-defined kilometre ranges that a vehicle should travel in a given FBT year. The kilometre ranges are based on the total distance travelled and do not differentiate between private use and business use.

The Federal Budget announced by the Australian Government on 10th May 2011 included reforms to the FBT Statutory Rates to be introduced effective immediately for all new lease contracts. All lease contracts commenced prior to 7.30pm (AEST) on 10th May 2011 will be treated under the old (historic) Statutory Rates, however new lease contracts will see the four Statutory Rates converted into a single rate of 20% which will be phased in over a 3 year period.

The statutory brackets are as follows:

Distance travelled during an FBT year (1 April - 31 March)	STATUTORY RATES				
	Existing Contracts	New contracts commenced after 7:30pm (AEST) 10 May 2011			
	Prior to 10 May 2011	From 10 May 2011	From 1 April 2012	From 1 April 2013	From 1 April 2014
0 - 15,000 km	26%	20%	20%	20%	20%
15,000 - 25,000 km	20%				
25,000 - 40,000 km	11%	14%	17%		
More than 40,000 km	7%	10%	13%	17%	

11.2 FBT Formula

Vehicle Cost Base x Statutory Fraction = Taxable Value (also known as “Benefit Value”)

(Taxable Value - Post Tax Contributions) x Days Held / Days in FBT Year x FBT Rate x Gross Up Factor

For example:

Vehicle Cost Base Value = \$30,000

Estimated Annual Kilometres = 20,000 km per annum

FBT Days Held = 365 days

Post Tax Contributions = \$0

FBT Calculation = (\$30,000 x 20% - \$0) x 46.5% x 2.0647 = \$5,760.51

11.3 Post Tax Contributions (PTC)

Recipient contributions, also known as “Post Tax Contributions”, are payments made by an employee from his or her after tax salary towards the running costs of their salary packaged vehicle. Where post tax contributions have been made then the Taxable Value of the car fringe benefit can be reduced dollar for dollar with the amount of post tax contributions.

This provides a much more attractive outcome for any employee who salary sacrifices taxable income below the top marginal income tax rate. The current top marginal income tax rate is 46.5% and applies to income above \$180,000.

By adopting post tax contributions an employee can effectively replace the FBT rate of 46.5% with their own (lower) rate of marginal income tax. The outcome results in zero FBT costs being allocated to the total salary sacrifice budget and the remaining provisions split between a mix of pre tax deductions and post tax contributions.

During consultation Enlist will calculate the correct amount to be split between pre tax and post tax income and instruct CXC of the respective deductions to be withheld via payroll.

For example:

Annual Taxable Salary	\$70,000	Annual Lease Rentals	\$7,584 (Ex GST)
Vehicle Price	\$33,000 (Inc GST)	Annual Running Costs	\$6,500 (Ex GST)
Annual Kilometres	20,000 km	Annual FBT	\$6,049
Lease Period	36 months	Personal Loan Payments	\$8,020 (No GST)

	Privately Funded Arrangement (Post Tax Only)	Standard Packaging (Pre Tax Sacrifice)	Post Tax Contributions (Pre & Post Tax Sacrifice)
Gross Salary	\$70,000	\$70,000	\$70,000
Pre tax Sacrifice	\$0	\$20,493#	\$8,717# *
Taxable Salary	\$70,000	\$49,507	\$61,283
Income Tax & Medicare Levy	\$15,347	\$8,380	\$12,383
Post Tax Contribution	\$0	\$0	\$6,300
Private Vehicle Expenses	\$15,110^	\$0	\$0
Remaining Cash in Hand	\$39,543	\$41,127	\$42,600

^ Comprises loan payments under identical term as novated lease + running costs including GST

Includes administration fees

* Includes \$573 for GST on Post Tax Contribution (i.e. 1/11th of \$6,300)

*The above example clearly demonstrates that the employee would be left with more cash by salary packaging a novated lease. Under the traditional (full pre tax) method, which includes FBT, the employee would save \$1,584 each year. However, by adopting the Post Tax Contribution Method and effectively swapping the FBT rate of 46.5% with the employee's marginal income tax rate of 32.5% the annual savings will increase to \$3,057 and a **total net saving of \$9,171 over three years.***

11.4 FBT Reconciliation

At the end of each FBT year (31 March) employees will be required to submit an odometer declaration stating their final odometer reading as at the end of March. FBT reconciliation will then be performed to ascertain whether sufficient provisions have been deducted from employees throughout the year or alternately whether post tax contributions have sufficiently offset the FBT value. An adjustment will be made to either recover any FBT shortfalls or reimburse excess FBT deductions. FBT shortfalls will be recovered from employee's pre tax salary and FBT reimbursements will be paid to employees as taxable salary which requires income tax to be withheld at the employee's marginal tax rate.

Employees who use post tax contributions to offset FBT cannot be reimbursed any FBT because there was no FBT deducted in the first place. However, subject to employment contracts, it may be possible to refund the portion of income tax that was withheld on the excess amount of post tax contributions.

N.B. It is mandatory for employees to submit odometer declarations at the end of each FBT year or at the completion of their novated lease. Failure to submit a declaration may result in FBT being calculated and reconciled back to the employee at the highest statutory rate (26%).

11. FEES

CXC employees will be charged the following fees which will be included in the total salary sacrifice allocation.

Fee Description	Amount	Frequency	
Establishment Fee	\$150	Once at the start of a new lease	<i>All fees exclude GST. Input tax credits for GST can be claimed and the net cost is charged to employee Salary Package Accounts.</i>
Administration Fee (includes fuel card)	\$30	Monthly	

N.B. An additional “one-off” document fee may apply if purchasing a used vehicle from a private vendor (i.e. not applicable when used vehicles are purchased from registered motor vehicle dealers).

12. ONLINE WEB PORTAL

Employees receive access to a secure online portal. The online portal includes the following features and information:

- Daily transactions and balances;
- Itemised fuel card transactions;
- Odometer tracking information;
- Lease information;
- Kilometre projection calculator (if applicable);
- Important FBT information;
- Monthly account statements;
- Pre-filled forms; and
- Novated lease calculator.

13. TERMINATIONS & RECONCILIATIONS

At the conclusion of each lease novation period Enlist reconcile the employee’s Salary Package Account back to a zero balance. The reconciliation will calculate the final balance between actual expenses and the allocated provisions received from payroll. Neither CXC nor Enlist retain a profit from positive balances or carry losses from negative balances. The shortfall or surplus of the final balance will be credited to the employee’s pre tax salary.

It is the responsibility of each employee to advise Enlist of any intention to terminate the lease and/or if the employee intends to terminate employment with CXC. On notification to Enlist the employee must ensure the following criteria are met:

- Submit an odometer declaration (for FBT purposes); and
- Return fuel card to CXC HR Manager.

In the event that lease novation ceases as a result of employment termination the employee will be offered one of the following three options:

- (1) Payout the lease from personal savings or proceeds of sale (if vehicle is to be sold);
- (2) Transfer lease to a new employer. This option is subject to policy conditions of new employer; or
- (3) Continue to pay lease rentals from personal savings.

In the event that lease termination arises due to maturity of a lease period, the employee will be offered one the following three options:

- (1) To purchase the vehicle at the residual value and own the vehicle privately;
- (2) To sell the vehicle (or trade in) and pay out the lease residual from the proceeds of sale; or
- (3) Refinance the residual value (ex GST) and continue the salary packaging arrangement.

14. CORPORATE POLICIES

In addition to the scope of the novated lease program outlined in this booklet, CXC also requires employees to be aware of the following corporate policies:

Eligibility

The novated lease salary packaging program is only available to permanent internal employees and external contract employees holding contracts of greater than six months in Australia. Internal employees on probation periods cannot participate until such time that the probation period has expired or unless prior written authorisation has been granted by CXC HR Manager or other authorised representative. External contract employees holding contracts of less than six months cannot participate.

Leave without Pay

Leave without pay (LWOP) includes maternity leave, carer's leave, unpaid sick leave, other CXC approved leave or unpaid holiday leave for external contract employees.

Employees with a novated lease vehicle who take LWOP will normally be required to stop the salary packaging arrangement and either pay out the lease or continue to pay the lease rentals and running costs from personal savings. At such time that the lease is un-novated, the employee will be required to submit an odometer declaration and return his or her fuel card. The employee's salary package account will be reconciled with the respective adjustment applied to the gross salary.

In the event that an internal employee is aware of impending LWOP in advance (such as maternity leave), the employee can elect to increase salary sacrifice provisions in months leading up to the period of leave in order to build up a surplus in the salary package account. The surplus can then be used to pay for expenses during the leave period and the vehicle can remain novated with CXC.

External contract employees are required to salary sacrifice annual deductions based on a 46 week pay period calculation. This calculation means that an annual deduction is paid over 46 weeks which allows the employee to retain the novated lease arrangement during unpaid holiday leave up to a maximum of one month.

15. OBLIGATIONS & RESPONSIBILITIES

Each party has defined tasks they must perform in order to meet key obligations as outlined below:

Enlist Obligations

- Provide a personalised consulting service to ensure each employee understands the novated lease program and associated costs relating to individual circumstances;
- Provide unlimited number of Novated Quote Reports (as required);
- Free vehicle sourcing services for new vehicles;
- Arrange competitive lease finance;
- Manage all document requirements;
- Administer all aspects of the Motorpass account;
- Pay for all third party supplies and reimbursements in full;
- Fund negative balances in Salary Package Accounts throughout the lease period at no cost to CXC or employees;
- Supply Payroll Deduction Authority Reports directly to CXC payroll department;
- Provide monthly GST invoice statement to CXC;
- Provide monthly Account Statement Reports directly to employees;
- Monitor Salary Package Account balances and communicate directly with employees to negotiate adjustments that may be reasonably required from time to time;
- Provide a range of corporate reports to CXC including, but not limited to, account balances, kilometre projections, annual FBT reconciliations and termination reconciliation reports;
- Implement educational initiatives as mutually agreed with CXC including information workshops and literature; and
- Communicate industry and product updates to CXC and employees (as required).

CXC Obligations

- Implement, administer and review salary packaging policies;
- Supply employment confirmation letters to Enlist during the credit application process;
- Process salary sacrifice provisions via payroll;
- Remit deductions to Enlist after each pay period;
- Recover or reimburse final reconciled balances from employee pre tax salaries at completion of novation periods.

Employee Obligations

- Seek independent financial advice;
- Choose a preferred vehicle model;
- Sign a Payroll Deduction Authority Form as acceptance of agreed salary sacrifice provisions;
- Provide an odometer reading to merchants when purchasing fuel and maintenance with the fuel card;
- Submit odometer declarations for FBT purposes after 31 March each year or upon termination of employment with CXC;
- Maintain responsibility for other drivers using the vehicle;
- Pay road tolls, traffic and/or parking infringement notices;
- Ensure vehicle is registered & insured at all times;
- Claim reimbursements direct from Enlist (as and when required);
- Pay for any additional capital improvements after delivery of the vehicle;
- Adhere to vehicle manufacturer's handbook & financier requirements as documented in lease agreements;
- Advise Enlist when personal circumstances change (e.g. new residential address, contact details, etc);
- Return Motorpass card at the completion of the lease or employment, whichever is first; and
- Repay outstanding amounts owed to CXC upon final reconciliation of the Salary Package Account, including FBT (N.B. final repayment for negative account balances can be deducted from pre-tax salary).