Vehicle & Equipment Finance

ANDERSON & ASSOCIATES

ABN 77 213 426 093

Vehicle & Equipment Finance

There are a number of different ways to finance the purchase of vehicles and equipment in your business including lease, chattel mortgage and commercial hire purchase. Each method of finance has varying taxation implications plus important GST and FBT considerations. The financing method can also have profit and cashflow implications that you need to understand.

We work closely with our clients to provide the most tax effective advice and where possible, usually try to structure the finance in such a way that you claim back any upfront GST on your next Business Activity Statement. This brochure contains a very brief summary of some of the most common methods of financing vehicles and equipment, however, we urge you to consult with us before you make this important decision.

Our advice is founded on sound business practices, built on a solid ethical platform and offered by professionals committed to your success. Vehicle and equipment finance is a specialist service that requires expertise and we continue to expand our service capabilities across a range of interrelated disciplines by forming strategic alliances.

For vehicle and equipment finance quotes and specialist advice we liaise with one of our alliance partners, P J Camm & Associates Pty Ltd who are affiliated with the Money Resources Group. Their Leasing & Finance Manager, ***David Jakimiuk*** has over 20 years industry experience and is accredited with the peak industry bodies which guarantees you receive the best advice at all times. They can also access fleet discounts that could save you thousands of dollars when you purchase a new car or light commercial vehicle.

Talk to us today about financing a vehicle or piece of equipment for your business and we will liaise with David to make sure you get the best rate available and structure the finance to achieve the most tax effective outcome.

ANDERSON & ASSOCIATES

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Helping Accountants Succeed

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Member of Money Resources Group Pty. Ltd.

Finance Available

Motor Vehicles

- New & Used
- Passenger & Commercial
- Private Sales
- Prestige & Luxury Vehicles
- Classic, Collector & Vintage

Heavy Vehicles

- Trucks & Trailers
- Heavy Haulage
- Agricultural & Farm Machinery
- Earthmoving & Mining

Plant, Equipment & Machinery

- Manufacturing
- Industrial
- Professional
- Computers & IT
- Medical & Dental
- Hospitality

Fleet Discounts

You can access **fleet discounts** on new cars and light commercial vehicles through our discount car buying service. Our extensive dealer network guarantees to save you hundreds (if not thousands) of dollars on new and demo models from the following vehicle manufacturers:

- Ford
- Holden
- Toyota
- Honda
- BMW
- Mercedes
- Mitsubishi
- Mazda
- Audi
- Nissan
- Lexus
- Suzuki
- Alfa Romeo
- Fiat
- Citroen
- Lotus
- Subaru
- Volkswagen
- Renault

Simply call or email the vehicle specifications through to our office and we will provide a quote for the vehicle including all on road costs. It is a free service devoid of pressure, sales pitch or time consuming visits to dealers.

Vehicle & Equipment Finance Options

There are a number of different finance methods available and this brochure provides a brief explanation of the options together with their tax consequences and benefits.

Please consult with us regarding your method of finance, term and any balloon or residual to make sure it is within the ATO guidelines. We can obtain finance quotes and fleet discounts through a strategic alliance partner so make sure you talk to us about the purchase of your next vehicle or piece of plant or equipment for your business or farm.

Chattel Mortgage

A **Chattel Mortgage** is an attractive finance option if you use the 'cash' method of accounting for the Goods and Services Tax (GST). Under the cash method, the GST component of the purchase price can be claimed back on the next Business Activity Statement rather than claiming the GST over the term of the finance contract.

You can choose to finance the total purchase price or use a deposit or trade-in to reduce the loan amount and monthly repayments. You can even structure the finance to pay back the GST component several months into the loan agreement. This reduces the outstanding loan and the total interest you will pay over the term of the loan.

By choosing a Chattel Mortgage, you become owner of the asset while the financier secures a charge over the asset. As you are the owner of the asset you can claim a tax deduction for the depreciation as well as the interest component of the repayments.

Other benefits of a Chattel Mortgage include:

- The repayments are fixed over the term of the loan that ranges from 12 to 60 months
- You can structure the repayments with or without a balloon payment at the end of the loan term to suit your cash flow
- There is no GST payable on the balloon payment (if any) at the end of the contract

Finance Lease

A **Finance Lease** can be an attractive finance option if you use the 'cash' method of accounting for the Goods and Services Tax (GST). With a finance lease, the amount financed excludes the GST component of the asset's purchase price which is claimed back by the financier. This means you are financing the ex GST price, reducing the amount borrowed. GST is charged on your monthly repayments which can be claimed back on your next Business Activity Statements over the term of the finance contract.

Under a lease agreement, the lessee pays the rental but does not obtain ownership or equity in the vehicle. The lessor retains ownership of the vehicle, while the lessee assumes the risk of the residual value. Under a finance lease, the lessee is responsible for all maintenance and running costs of the vehicle. Finance lease rentals are subject to GST, as is the residual value of the motor vehicle.

At the end of the lease the lessee has the option of:

- Returning the vehicle to the lessor (and make up any shortfall in the residual)
- Offer to pay out the residual and obtain ownership of the vehicle
- Refinancing the residual for another lease term

A finance lease allows the lessee to select a lease term and repayments to suit their cash flow. Lease rentals and residual values can be negotiated within a range set out under ATO guidelines. The lease rental will be tax deductible to the extent of the business use and if a motor vehicle, whether the cost price exceeds the Luxury Car Price Limit ($57,180 in 2008/2009).

Vehicle & Equipment Finance Options

Commercial Hire Purchase (CHP)

A **Commercial Hire Purchase (CHP)** is generally suitable for organisations using the 'accruals' method of accounting for the Goods and Services Tax (GST) or for individuals who primarily use their motor vehicle for business related purposes. Under the 'accruals' method, the GST component of the acquisition price of the motor vehicle (or other asset) can be claimed back in the entity's next Business Activity Statement, rather than claiming the GST over the term of the finance contract.

You can finance the total purchase price or use a deposit or trade-in to reduce the loan amount and repayments. You can even use the GST refund to make a lump sum repayment at a set point of the contract. This has the effect of reducing the loan amount and interest payable over the term of the loan.

Unlike a Chattel Mortgage, you do not become the owner of the vehicle or equipment until all monies owed under the contract are paid. However, you can still claim a tax deduction for the depreciation on the asset as well as the interest on the loan (to the extent it is used for business purposes.)

The benefits of a Commercial Hire Purchase include:

- The repayments are fixed over the term of the contract
- The term of the loan ranges from 12 to 60 months
- You can structure the finance with or without a balloon payment at the end of the term to suit your cash flow
- There is no GST payable on the balloon payment (if any) at the end of the contract

Consumer Car Loan

A **Consumer Car Loan** is typically used by individuals to purchase a car where it is predominately for personal or private use and it does not form part of any salary packaging arrangement. With car loans, the car is used as the security against the funds borrowed to acquire the car. As the financier holds the car as security, their risk of loss is reduced and as such, a much more competitive interest rate can be offered compared to standard personal loans.

The benefits of a Consumer Loan are:

- Repayments are fixed for the period of the loan.
- In general, the interest rate on a personal car loan is significantly less than standard personal loans.
- You can finance the total purchase price of the car.
- Compared to adding the vehicle to an existing mortgage, a consumer car loan ensures you make regular payments over a period of 12-60 months, instead of spreading your vehicle repayments over the life of a home loan (up to 30 years)

Vehicle & Equipment Finance Options

Novated Lease

A **Novated Lease** is a 3-way arrangement between the employee, the employer and the financier. The lease payments are transferred from the employee to the employer through a 'Deed of Novation' and the employer assumes responsibility for making the lease payments to the financier.

The Deed of Novation remains in force until the earlier of the end of the lease term, or until the employee ceases employment. A ***Fully Maintained Novated Lease*** is an arrangement where all of the operating costs of the motor vehicle are included as part of your salary package. A ***Non-Maintained Novated Lease*** is where the lessee (employee) is responsible for all maintenance and running costs of the vehicle.

The concept of novated leasing is central to salary packaging arrangements between an employee and an employer. Under a salary packaging arrangement, an employee agrees to forego a portion of their salary or wages in return for benefits equal to that amount. The lease and running costs of the motor vehicle plus fringe benefits tax (if applicable) are deducted from the employee's pre-tax salary and PAYG tax is calculated on the reduced salary or wages.

There are a number of benefits associated with novated leases including:

- The employee can lease the motor vehicle of their choice
- The motor vehicle can be leased where the private use of the vehicle is 100%
- When an employee ceases employment, the responsibility for the lease reverts back to the employee
- The motor vehicle does not appear on the employer's Balance Sheet
- The repayments are fixed over the term of the loan
- The term of the novated lease ranges from 12 to 60 months
- As the financier is the owner of the motor vehicle, they claim the GST on the purchase price, meaning that the employee finances the GST-exclusive amount
- Under a salary packaging arrangement, the employer is entitled to claim an input tax credit for the GST components of the lease payments and running costs

Operating Lease

An **Operating Lease** is an arrangement where the lessee agrees to lease the motor vehicle for a predetermined period and at the end of the term the motor vehicle is handed back to the leasing company. The leasing company assumes the risk with regards to the residual value of the motor vehicle at the end of the lease. The rental payments for the operating lease are fixed for the term of the lease.

The operating lease agreement will provide for a maximum number of kilometres that can be travelled by the motor vehicle during the lease term. If the maximum number of kilometres is exceeded by the lessee an excess kilometre charge will be payable by the lessee to the leasing company.

The motor vehicle must be returned to the leasing company at the end of the lease in good order and condition. Depending on the type of repairs to be made to the motor vehicle upon return (if any), the lessee may be required to pay the cost of those repairs.

The lessee has the option of choosing a **fully maintained** or **non-maintained operating lease**. A fully maintained operating lease is an arrangement where all of the operating costs (such as lease rental, repairs and maintenance, registration etc.) of the motor vehicle are covered by a single monthly payment made by the lessee to the leasing company. The leasing company takes care of all maintenance and administration costs of the motor vehicle. Under a non-maintained operating lease the lessee is responsible for all maintenance and other running costs of the motor vehicle.

FEATURES	FINANCE LEASE [1 & 2]	NOVATED LEASE [2]	COMMERCIAL HP	CHATTEL MORTGATE	CONSUMER LOAN
Description	A tax effective method of financing the full value of an eligible new or used asset.	A lease is originally taken by the employee and then lease is novated to the employer.	A method of financing the acquisition of an eligible new or used asset.	Title of goods financed remains with customer.	A method of financing new or used assets which are predominately for private or personal use
Financing	100% of value	100% of value	Up to 100% of value	Up to 100% of value	Up to 100% of value
Trade in or cash deposit can be used to reduce the amount financed	No	No	Yes	Yes	Yes
Minimum Loan size	$20,000	$20,000	$20,000	$20,000	$10,000
Repayment term (Longer terms available subject to assessment)	Minimum 12 mths Maximum 5 years	Minimum 12 mths Maximum 5 years	Minimum 12 mths Maximum 5 years	Minimum 12 mths Maximum 5 years	Minimum 12 mths Maximum 5 years
Payment frequency	Monthly Rentals	Monthly Rentals	Monthly Payments	Monthly Payments Can be structured.	Monthly Payments
Residual / Balloon	Residual payable at expiry, amount depends on term.	Residual payable at expiry, amount depends on term.	Balloon payment optional	Balloon payment optional	Balloon payment optional
Balloon/Residual value at the end of the term	Based on ATO Guidelines. GST Payable on Residual	Based on ATO Guidelines. GST Payable on Residual	Usually to maximum value allowable under ATO Guidelines for Lease	Usually to maximum value allowable under ATO Guidelines for Lease	Usually to maximum value allowable under ATO Guidelines for Lease
Security (Directors & Shareholders Guarantees usually required for company borrowings)	Goods acquired. Possibly collateral for secondary and tertiary goods.	Motor Vehicle.	Goods acquired. Possibly collateral for secondary and tertiary goods.	Financier takes Bill of Sale / Chattel Mortgage (Possibly collateral for secondary and tertiary goods.)	Motor Vehicle
Ownership	Financier	Financier	Financier passes ownership to customer at end of term.	Customer	Customer
Depreciation	Financier	Financier	Customer	Customer	Not Applicable
Tax Deductibility	Lease rental deductible if asset used for income producing purposes.	Employer (as novated lessee) can claim deduction for lease payments. Employee cannot claim any deduction for lease rental.	Interest on payments and depreciation if asset used for income producing purposes.	Interest on payments & depreciation if asset used for income producing purposes	Not Applicable
GST (applicable to finance contract).	Payable on each rental amount and the Residual payment	Payable on each rental amount and the residual payment	Payable up front on amount financed. Upfront GST can be financed.	Not Applicable	Not Applicable
How is GST applied to the finance	GST Exclusive Price financed. GST applicable on rentals.	GST Exclusive Price financed. GST applicable on rentals.	GST Inclusive Price financed. No GST on repayments.	GST Inclusive Price financed. No GST on repayments.	Not Applicable
Can client claim full GST on next BAS	GST on monthly rental is claimable	GST is claimable by employer during term of the novation	If client is on cash for GST, claimed over term of contract. If on accruals for GST, can be claimed in next BAS.	Yes	Not Applicable
Documentation Fee	Yes	Yes	Yes	Yes	Yes
Registration Fee	No	No	No	Only if Company	No
Fixed Interest Rate	Yes	Yes	Yes	Yes	Yes
Fixed Payments/Rentals	Yes	Yes	Yes	Yes	Yes

Notes:

1. Information current as at August 2009.
2. Structured Lease also available. Structured Lease are same as a finance lease but payments are structured to suit customer's cash flow (eg. irregular, uneven).
3. The tax comments above are of a general nature only. Customers must seek their own independent tax advice in relation to their individual circumstances.