DRIVING THE BEST DEAL

You've taken a long time to realise you need a new business vehicle and you finally drag yourself through the maze of car yards and find an amazing deal. But, how do you pay?

BY JANNA FIKH

The market offers several options for businesses. Primarily, you can choose to buy the vehicle outright or enter into a type of finance agreement.

Buying a vehicle outright is pretty straightforward. Your business writes out a cheque for the amount in question and the vehicle becomes yours. As the legal owner and holder of the vehicle, you take up the initial asset in your business accounts which in affect becomes an asset which depreciates in value over time.

The initial purchase can significantly affect your business cashflow in the short to medium term. By choosing to buy the vehicle outright, you have spent the particular amount of money in question immediately, as opposed to investing the amount into other income generating areas of your business.

Should buying outright not be an option, you may wish to consider the various finance options available. Due to the terminology involved within financing, it is often hard to appreciate the differences between the options and what may be the best for you and your business. Some of the finance options available include:

- **Chattel mortgage:** As the name implies, a chattel mortgage is essentially a mortgage over the goods to be financed, in this case a vehicle. The vehicle becomes yours immediately on purchase, with a finance company taking a mortgage over that vehicle.
  - *Tax implications:* Interest paid and depreciation of the vehicle is tax deductible.
  - *Cashflow:* Fixed interest rates and set monthly repayments simplify budgeting.
- **Commercial hire purchase:** A commercial hire purchase is very similar to a chattel mortgage noted above, with the difference being in respect of title ownership. The finance company holds the title of your vehicle until you have completed your repayments contract on it.
  - *Tax implications:* Interest paid and depreciation of the vehicle is tax deductible (despite you not being able to hold legal title until end of contract).

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- *Cashflow:* Fixed interest rates and set monthly repayments simplify budgeting.
- **Operating lease:** This option entails leasing a vehicle from a leasing company. An operating lease enables you to lease a vehicle without you taking the risks associated with owning the vehicle or having to outlay any capital to purchase the asset. Title of the vehicle remains with the leasing company at all times, thus not affecting the balance sheet of your business at any time. Recently, there has been a rise in fleet leasing companies whereby you outsource all of your vehicle related tasks (maintenance and administration) to take advantage of the simplicity of leasing and reduced risk of owning a depreciating asset.
  - *Tax implications:* Lease rental payments are tax deductible.
  - *Cashflow:* Fixed rental payments over the term of the lease simplify budgeting.

OTHER VEHICLE CONSIDERATIONS

Advice relevant to your business and its particular circumstances is strongly advised before any particular method is chosen.

- **Luxury Car Tax implications:** You also need to be aware of any possible luxury car tax implications applicable to your vehicle purchase. Should you purchase a vehicle with a GST inclusive value over $75,375 for fuel efficient cars and $57,466 for other cars during the 2010/11 financial year, luxury car tax may be applicable. In practice, this means that depreciation can only be claimed up to the limits quoted above. The same limits would apply for GST purposes, whereby you will be entitled to a maximum input tax credit of one eleventh of the car depreciation limit of your new vehicle.
- **GST:** GST consequences apply in all of the options provided above if your business is registered for GST. The timing of GST applicable is determined by what method of reporting is used by the business in accounting for GST i.e. cash or accrual.
- **Vehicle use by employees:** After purchasing or financing a vehicle, many employers often offer employees a company vehicle as part of their salary package. Should this be applicable within your business, you will need to decide whether Fringe Benefits Tax (FBT) is applicable. FBT is a tax paid on certain benefits you provide to your employees or your employees’ associates. FBT is separate from income tax and is based on the taxable value of the various fringe benefits you provide. A company vehicle generally attracts FBT when it is used privately by an employee. If a company car is garaged at or near your employee’s home or it is available for private use, even if the company car agreement states they do not have permission to use the vehicle privately, it is deemed to being used privately. As an employer, you have to pay FBT, even if the benefit is provided by an associate or by a third party under an arrangement with you. **DB**

—Janna Fikh is Principal at Fletcher Tax Accountants in Sydney.

WHAT TO WATCH OUT FOR WHEN FINANCING YOUR FLEET

We asked Barry Watkins, a finance strategist from Clever Finance Solutions (cleverfinance.com.au), for his top tips on financing your fleet.

- If comparing finance quotes between companies, forget the percentages as these can be easily manipulated, only pay attention to the actual dollar amounts. The two important amounts are the monthly payment and the residual or balloon amount.
- Think carefully about the residual or balloon amount and don’t make it too high. We have seen many examples where the finance company is owned more than the vehicle is worth at the end of the term.
- Vehicle finance is not like a home loan. You don’t pay less interest by making larger payments each month, in many cases you can’t make extra repayments.
- Generally the interest for the whole finance term is added on upfront, so if you intend to payout the finance on the vehicle before the end of the finance term you could get a rude shock as to how much you actually have to pay.

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