



Home Loans  
Investment Loans  
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Asset Finance

## **Fact Sheet: Car & Equipment Finance**

### **What is Car & Equipment Finance?**

A car & equipment finance facility allows a business to finance the purchase of plant, equipment and motor vehicles for business purposes, without tying up large amounts of capital. Under an Equipment Finance facility you have the equipment you need now, with repayments structured to suit your cash flow.

### **Car & Equipment Finance – The Different types of Loans**

**There are four main types of loans:**

Commercial Hire Purchase, Chattel Mortgage, Lease and Novated leases are the four predominant types of asset Finance available from most lenders today:

#### **Commercial Hire Purchase (CHP):**

A Commercial Hire Purchase (CHP) is a commercial finance product where the customer hires the vehicle from the financier for a fixed monthly repayment over a set period of time. Under a Commercial Hire Purchase (CHP) arrangement the financier agrees to purchase the car on behalf of the customer, and then hire it back to them over a set period of time. The customer has the use of the vehicle for the term of the contract but is not the owner of the vehicle. At the end of the contract term when the total price of the vehicle (minus any residual) and the interest charges have been paid in full, the customer takes ownership of the car.

#### **Chattel Mortgage:**

A Chattel Mortgage is a commercial finance product where the customer takes ownership of the vehicle (chattel) at the time of purchase. Under a Chattel Mortgage the financier advances funds to the customer to purchase a vehicle, and the customer takes ownership of the vehicle (chattel) at the time of purchase. The financier then takes a "mortgage" over the vehicle as security for the loan, by registering a Fixed and Floating Charge with ASIC. Once the contract is completed, the charge is removed giving the customer clear title to the vehicle.

#### **Lease:**

A Finance Lease or Vehicle Lease is a commercial finance product which enables the customer to have the use of a car or commercial vehicle and the benefits of ownership, while the financier retains actual ownership of the vehicle. The financier purchases the vehicle on behalf of the customer, who then leases the vehicle back from the financier and pays a fixed monthly lease rental for the term of the lease. At the end of the lease the customer can either pay a residual value (final instalment) on the lease and take ownership of the car, trade it in or re-finance the residual and continue the lease.

#### **Novated Lease:**

Novated Leasing is a method of salary packaging a car, under which an employee leases a car and the employer agrees to take on the employee's obligations under the lease, paying the monthly lease rentals from the employee's pre-tax income. A Novated Lease is a three way agreement between an employer, employee and finance company whereby the employee enters into a *Car Lease (Finance Lease)* with the financier and the employer



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pays the monthly lease rentals on behalf of the employee, and provides the vehicle for the employee to use as part of their salary packaging arrangement. If employment ceases for any reason, or the lease agreement is finalised, the Novation ceases and the obligations assumed by the employer revert back to the employee.

**Features and Benefits of Asset, Equipment & Vehicle Finance:**

Features	Benefits
Funding term generally ranges from 12 months to five years	Choice of term to suit client / business requirements and the economic life of the asset.
Fixed repayments.	Rate is fixed for the term of the agreement – helps with cash flow planning as it is a known fixed cost.
Choice of repayments frequency.	Flexibility – repayments can be monthly, quarterly, six-monthly, annually or specific structured to suit your cash flow requirements.
Master Limit Available	Provides you with a line of credit which can be drawn down as the need to finance equipment arises. This saves cost and time.
Choice of financing options: <ul style="list-style-type: none"> <li>• No initial outlay in the majority of cases.</li> <li>• Can make a cash deposit or trade-in as an initial contribution within an Asset Finance Facility</li> <li>• With Asset Finance, you can make a final payment (“balloon payment”) at the end of the contract term</li> </ul>	<ul style="list-style-type: none"> <li>• No capital outlay required and you can take possession of the goods for the cost of the first rental.</li> <li>• This allows the repayment amount to be calculated on the actual amount financed rather than on 100% of the value of the goods.</li> <li>• Reduce the cost of interest throughout the agreement and take advantage of a higher level of working capital. Balloon payments are not subject to GST.</li> </ul>
Novated Leases, the employee leases a vehicle enjoying full benefits of the car, with the lease payments paid for by the employer as they fall due.	Repayments are organised on a pre-tax income for the employee with tax concessions for the employer.
Valuable Tax benefits if the goods being financed are for business purposes.	Asset Finance can provide tax benefits through the interest paid and depreciation of the equipment.*  In the case of a Finance Lease, the rental payments may be fully tax deductible.*

\*Tax treatment may vary according to circumstances. Please consult your tax advisor or accountant.



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### So, which one is best for me?

Question	Commercial Hire Purchase (CHP)	Chattel Mortgage	Lease	Novated Lease
Can trade in or cash deposit be used to reduce the finance amount?	☺	☺	×	×
How is GST applied to the finance?	GST inclusive price financed. No GST on repayments.	GST inclusive price financed. No GST on repayments.	GST exclusive price financed. GST applicable on rentals.	GST exclusive price financed. GST applicable on rentals.
Can client claim full GST on next BAS?	If customer is on cash for GST, claimed over term of contract. If on accruals for GST, can be claimed on next BAS.	☺	GST on monthly rental is claimable	GST claimable by employer during term of the novation
Registration Fee	×	☺	×	×
Balloon\Residual Value at the end of the term	☺	☺	☺	☺
Fix interest rate	☺	☺	☺	☺
Fixed payments\rentals	☺	☺	☺	☺
Client tax deduction for depreciation & interest	☺	☺	×	×
Client tax deductions for rentals	×	×	☺ (Fixed Deduction each month)	☺ (Employer claims)

***If you would like more Details on Asset, Equipment and Vehicle Finance or would like to speak to a Professional Mortgage Specialist about your personal circumstances, please phone Loan Wize for an appointment.***