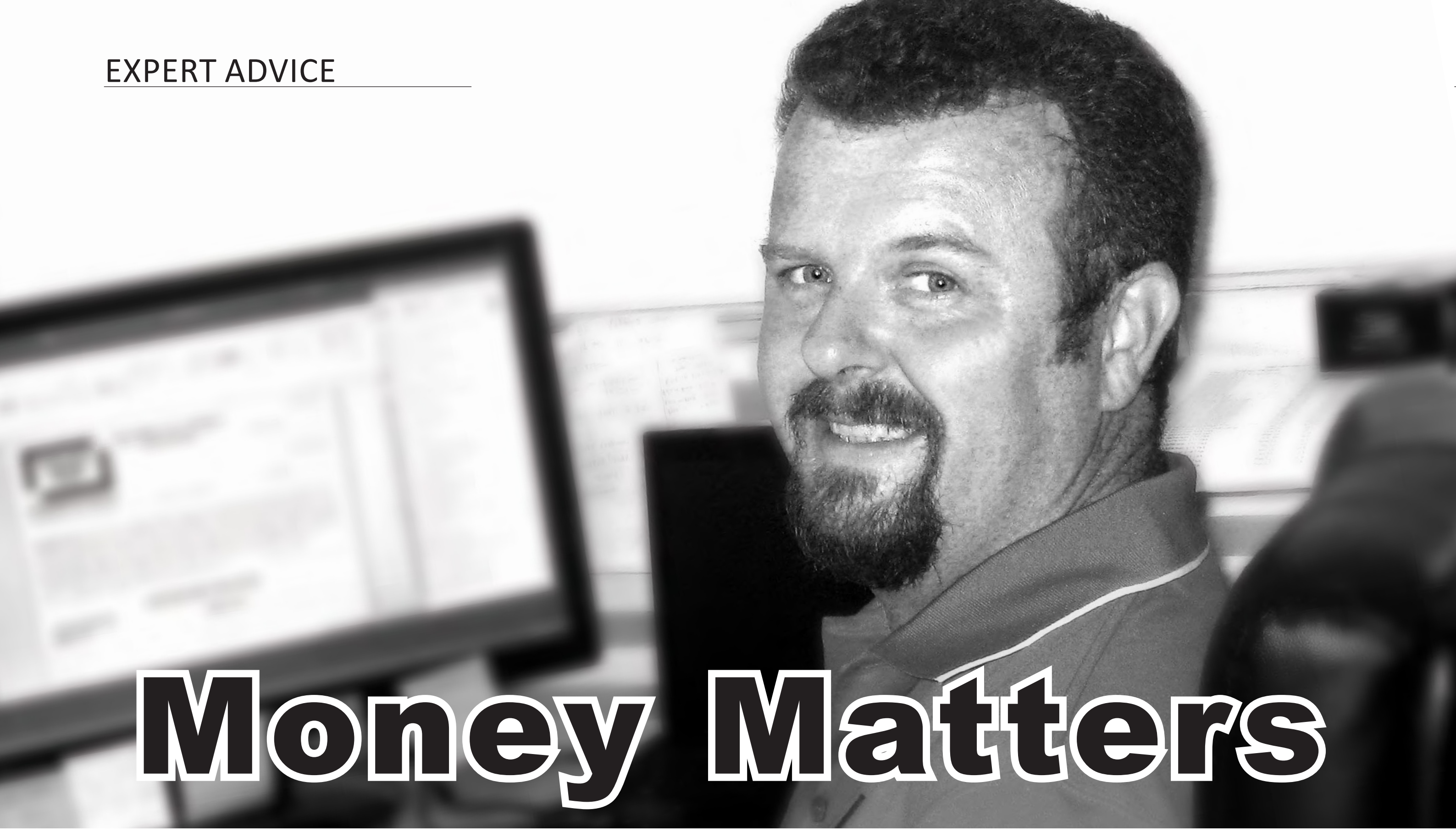

Money Matters

In this issue I'll give a very brief and broad outline of the three main business products, Lease, Asset Purchase (previously Hire Purchase) and Chattel Mortgage. Before I get into the nitty-gritty of them, each of these products has its own tax implications and you should always consult with your own tax advisor. Now, very briefly, each of these products can be used to purchase any asset type (Prime mover, floats, dollies, tautliners etc).

Finance Lease

The asset being purchased is owned by the bank, ITC (input tax credit) is claimed by the bank resulting in the net price only being financed.
Loan terms and residual payment are typically in accordance with the effective life set by the ATO
100% of lease payments are tax deductible.
Lease payments attract GST.
The lease must always have a residual payment. The lease can't be fully paid off.
Leases generally don't sit on the balance sheet of a business. This is attractive for larger businesses (public companies, etc) as not including the liability and asset can improve the equity position.
Deposits are not permitted.

Asset Purchase

Assets are owned by the bank and purchased by the client incrementally through each loan payment.
The full purchase price (inc GST) can be financed on any loan term (max five years) and with or without a residual payment.
GST can be claimed by the client in their BAS however it's done over the life of the loan incrementally with each monthly payment. (Please note that as of 1st July 2012, the claiming of full GST will now be up front in the same way as a Chattel Mortgage, but only for new agreements.)
Tax deductions come by way of depreciation of the asset and Interest on the loan. The loan payments are not tax deductible in the same way as a lease.
Loan payments do not attract GST.
Deposits can be made through cash or trade-in equity contributions.

Chattel Mortgage

Asset being purchased is 100% owned by the client.
The full purchase price (inc GST) can be financed on any loan term (max 5 yrs) with or without a residual payment.
100% of the GST on the purchase price can be claimed in the client's next BAS period.
Tax deductions come by way of depreciation of the asset and Interest on the loan. The loan payments are not tax deductible in the same way as a lease.
Loan payments do not attract GST.
Deposits can be made through cash or trade-in equity contributions.
Loan payments can be structured to match seasonal income. e.g. primary producers, weather dependent mining contractors etc.
Generally speaking, loan terms are between 12 months to five years and for residual values, a maximum of 30% of the purchase price. In some rare cases loan terms and residual values can be approved outside these guidelines.
For business transactions, almost 90% of all loans we write are chattel mortgages for two main reasons:
1. 100% of the GST is claimable in client's next BAS period and can sometimes help with cashflow;
and 2. Today, most business owners realise they must keep their equipment up to date but don't necessarily want to borrow the full amount.
Their loan can be structured to take deposits and paid off over a shorter term.

Dave Challinor

Fortified Finance and Leasing are Australia Credit License holders and as such, are qualified to provide you with unbiased, independent advice on seeking loans.
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