CHALLINOR

Business Lending Options

Lease, hire purchase and chattel mortgages explained

This issue is a very brief and broad outline of the three main business products: lease, asset purchase (previously hire purchase) and chattel mortgages. Before I get into the finer points, each of these products has its own tax implications and you should always consult with your own tax advisor.

Briefly, each of these products can be used to purchase a variety of assets (vehicles, earthmoving equipment, and computers, literally anything). Below is a very brief outline of each product.

FINANCE LEASE

- Asset being purchase 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 payments are typically in accordance with the effective life set by the ATO.
- 100% of lease payments are tax deductible.
- Lease payments attract GST.
- Leases must always have a residual payment. They 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, this is done over the life of the loan incrementally with each monthly payment.
- Tax deductions are from 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

- Assets being purchased are 100% owned by the client.
- The full purchase price (inc GST) can be financed on any loan term (max five years) with or without a residual payment.
- 100% of the GST on the purchase price can be claimed in the clients next BAS period.
- Tax deductions are from 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.

Generally speaking, loan terms are between 12 months and five years and for residual values, a maximum of 30% or 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. Firstly, 100% of the GST is claimable in the clients next BAS period and can sometimes help with cash flow. Secondly, 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 repaid off over a short term. So, whichever way you go, there's a product that will suit most situations.

Dave Challinor

With over 20 years of banking and finance experience, Dave has been exposed to and witnessed every possible change in the financial environment. From bank policy shifts to continually increasing governmental legislation, there is really no form of lending that Dave has dealt with. Being the owner of Fortified Finance & Leasing in Brisbane's North, Dave stays abreast of any changes in lending requirements that affects any consumer.