

## Motor Vehicle Finance Options

When financing a motor vehicle there are four common methods available.

The method used will determine:

- How GST is claimed (for businesses)
- How and what tax claims are possible

For more expensive vehicles, a depreciation cost limit applies to restrict the amount of depreciation and GST claimable.



	CHATTEL MORTGAGE	HIRE PURCHASE	LEASE	LINE OF CREDIT
GST - ACCRUALS	Upfront	Upfront	Progressive- over term	Upfront
GST - CASH	Upfront	Progressive- over term	Progressive- over term	Upfront
TAX DEDUCTION	Depreciation, Interest + Borrowing Costs	Depreciation, Interest + Borrowing Costs	Lease Payments	Depreciation, Interest + Borrowing Costs

You should discuss the most suitable method for yourself with your Accountant, but we have generally found that a business registered as a Cash GST Reporter benefits most from a Chattel Mortgage or Line of Credit. If using a Line of Credit, care must be taken to ensure that it is only used for tax deductible purposes, otherwise the yearly calculations of the deductible interest become complicated.

When arranging finance you should always ask what interest rate is applicable. Financiers can get repayments to acceptable levels (despite high interest rates) by increasing the final payment (i.e. balloon or residual) or extending the term.

Finance can be structured to suit yourself, however as a guide, we have found that finance over 48 months with a 40% balloon/residual gives a reasonable mix between repayments and end value. For example, a \$40,000 with a 40% balloon will require a final payment of \$16,000. Generally the value of the car will cover the payment in the event of a trade-in at that point.

### **Your Action Plan**

- Discuss finance options with our office before committing to the purchase of a car.

**Contact Prosperity Accountants team today  
on +61 8 9443 5199 for assistance with this  
Action Plan!**

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*Note: This information is of a general nature only and is not intended to be relied upon, nor to be a substitute for, specific professional advice. Also as changes in legislation may occur quickly we recommend that our formal advice be sought before acting in any of the above areas.*

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