

Choosing Auto Finance for Business or Personal?

With Sandra Kelly



There are many different types of finance that can be used towards the purchase of a motor vehicle such as a personal loan, secured loan, term purchase, chattel mortgage, novated lease, lo-doc to name a few.

Most businesses use a chattel mortgage to purchase a vehicle. This type of loan is structured so a business can claim the full GST component within the next BAS statement period. Most lenders want to see 2 years of financials and tax returns before they will lend to a new business.

If a business does not have this, a lo-doc loan is usually the way to go, but they will want to see assets owned by the owner of the business, such as personal property.

Please be wary of the finance companies that make wild offers like 'pay no interest ever' or 'we lend to anyone', I could certainly tell you some horror stories of people getting into all sorts of financial hardship because of these unscrupulous operators.

For personal use you could choose from a personal loan, secured loan or lo-doc. With a personal loan the bank or finance company would not usually need to hold security for a small loan towards a car. There is usually a minimum borrow starting from \$3000. Each different lender has their own criteria to determine your suitability to use their product. Most would look at your credit history, assets, employment status, residency status and your capacity to service the loan. A personal loan sometimes has a higher interest rate than compared with a secured loan but offers more flexibility with the repayment schedule and early repayment of the loan.

A secured loan is the most popular for private auto purchases; often the interest rate is lower than a personal loan. (Depending on your risk rating and other determining factors) and it has a fixed rate, making it useful for budgeting purposes. The term of a loan can be between 3-5 years depending on your capacity to pay the loan off. The finance company holds security over the vehicle until the loan is paid out. There is usually a maximum age for the vehicle to be, usually a model of 5 years or newer. This is in order to guarantee that the finance company can re-coup their losses in case of a default on the loan.

A Novated lease is typically a three-way agreement between: A car financier, Your employer and An employee (you). An employee agrees to take on the finance for a car from the finance company over a fixed period of time. The employer then takes the repayments out of your "pre tax" salary, doing a "salary sacrifice", thus reducing your taxable income.

While the contract for the finance is between the employee and the finance company. If you change jobs, you take your novated lease and your car with you. At the end of the term of the novated lease you then have the option to:- purchase the car for a residual that is owing or sell or trade yourself into another vehicle.

There are a couple of types of novated leases such as :-

- Fully maintained novated, where all the operating costs of the vehicle are covered, such as car-insurance, vehicle registration, fuel, tyres and servicing. In this instance you pay a regular monthly payment, and the novated leasing company covers all maintenance expenses.
- Non-maintained novated, when you are responsible for all operating expenses associated with the running of the vehicle.

The information provided in this article is of a general nature only. Please speak to your accountant or advisor to determine which best suits your individual and business needs.

For further help, guidance and options contact
SunCoast Auto Brokers on 1300 365352
or log on to their website www.sunauto.com.au