EQUIPMENT FINANCING OPTIONS

One question which accountants are often asked is: "should I lease or hire purchase?"

While this answer may once have been clear-cut, a series of taxation and industrial relations changes over the past decade (eg. stamp duty, GST and depreciation charges) have altered the mix of equipment finance solutions available in the marketplace. Issues which should be considered when looking at equipment finance include:-

- Credit risk – who owns the equipment? can repayments be tailored to your cashflow?
- Equipment risk – is the value of the equipment likely to fall (eg. because of rapid technology)?
- Depreciation – can rates be self-assessed or safe-harbours used?
- Tax benefits – when are tax benefits received (eg. monthly or yearly)?
- GST – are input tax credits claimed upfront or over the life of the agreement?
- Stamp duty – note that stamp duty rates will be phased out within 5 years.

Below is a summary of your options and the main characteristics of each one:-

Type of lease	***Characteristics***
Operating lease	• You agree to rent the equipment for a fixed period. At the end of the lease, you return the equipment without any obligation for the residual value. • Attractive option for businesses which need to regularly upgrade vehicles or high-tech equipment. • Payments are subject to stamp duty and GST. • Lease/rental payments are tax-deductible to the extent of business use.
Hire purchase	• Suits people who want full ownership of the vehicle or equipment, as this is transferred after final payment is made, or if paid-out at any time during the term of the agreement. • Payments are subject to stamp duty; GST is claimed upfront if registered on a non-cash/accruals basis. • Tax-deductions can be claimed for interest and depreciation.
Chattel mortgage	• An agreement to borrow funds to purchase equipment, where the equipment is used as security for the loan. You own the equipment while the financier holds the mortgage. • Tax-deductions can be claimed for interest and depreciation. • GST is claimed upfront if registered on a *cash* basis.
Novated lease	• Popular for salary-packaging of vehicles, whereby the employer pays the rental and running costs out of the employee's pre-tax salary. If the employee leaves the company, the lease reverts to the employee who then has responsibility for the vehicle and all remaining payments. • The employer can claim tax-deductions for the lease payments and other costs, as well as input tax credits for the GST.

If you would like any further information regarding this topic, please contact this office for assistance.

** From an article by Barbara Drury in Charter.*