

## **Hire Purchase & Leasing**

Jet Lending experts are specialists in hire purchase and leasing.

Leasing offers the following products and/or facilities for you:

- Finance Lease.
- Novated Lease Agreements.
- Commercial Hire Purchase
- Chattel Mortgage.
- Credit Limits.
- Master Equipment Finance Agreements (used mostly for limit type facilities).

## **Commercial Hire Purchase (CHP)**

CHP is our most commonly used equipment financing product. A CHP allows the borrower the flexibility to utilise equity or a cash deposit to reduce the amount financed, unlike a finance lease where equity is not permitted. There is also flexibility when setting the balloon value, i.e. the final instalment. A client may choose to fully amortise the amount financed or for cash flow purposes set a balloon value hence reducing the rentals.

All asset types can be financed under a CHP. The CHP is a fixed interest product with terms varying from 12 to 60 months. Monthly payments are generally calculated in advance. A client may also choose to structure the payments to suit their cash flow, for example with bi-annual payments.

A client choosing to finance an asset under a CHP must also consider the GST impact. GST is claimed by the financier on the supply of the asset, while the hirer has a liability for the GST on the supply of the finance. Claiming this GST will be different for a client set up on the cash accounting method as opposed to a client set up on the accruals accounting method.

Under a CHP the GST inclusive price of the asset is financed and there is no GST payable on the monthly instalment, balloon or payout amounts.

Obviously your client should seek advice from their financial adviser when considering the finance option that best meets their needs.

## **Chattel Mortgage (CM)**

A Chattel Mortgage is a loan with the financier taking a charge over the goods which is registered with ASIC and/or the Land Title Office under a Bill of Sale. In legal terms the title to the goods is in the name of the customer but they offer the goods as

security to the financier who registers a charge over that asset.

As a result, since the introduction of GST, the popularity of CM's has grown. Given that the assets ownership lies with the client, the client has the right to claim the GST which is included in the invoice amount of the asset. There is no GST applicable to the supply of the finance- unlike a CHP or Finance Lease. It is therefore attractive to the client who pays GST based on the cash method. This type of client entering a CHP must amortise the GST claim over the term of the finance. The same client financing via a CM can claim the GST in one amount.

A Chattel Mortgage is similar in many ways to the CHP. The GST inclusive price of the asset is financed, the product is fixed interest, finance terms vary between 12-60 months, equity can be applied to reduce amount financed, instalments can be fully amortised or structured with a balloon and there is no GST applicable to the monthly instalment, balloon or payout amount.

### **Finance Lease**

It is common for the term leased to be used when financing an asset; however a finance lease is rarely used these days. A finance lease does not have the flexibility offered by either a CHP or Chattel Mortgage.

A Finance Lease is an agreement whereby the Lessor (Leasing Financier) rents the equipment to the Lessee (Client) who has the right to use the goods for the period of the lease, but no claim to title. A residual value is set with the lessee guaranteeing the financier for this amount.

Under a finance lease the financier is invoiced for the sale of the asset. As a result the financier has the liability for the GST. The quote for finance is therefore calculated on the GST exclusive price of the asset. The residual value will be set based on the depreciation value of the asset and the term of the finance. This residual is set in line with the Australian Tax Office rulings. We have provided a few examples of these residuals on the following page.

### **Novated Lease**

A novated lease is an arrangement entered into by three parties- the Employer, Employee and Leasing Financier. This enables the employee to lease a car of their choice within a negotiated salary packaging arrangement.

Under the terms of a novated lease the employee leases the vehicle from the Leasing financier, the employee then novates the vehicle to the employer. This process results in certain obligations under the lease being transferred (novated) to the employer for the term of the novation.

Under this agreement the employer deducts the payment from the employee's gross remuneration under a salary sacrifice arrangement and the employee enjoys unrestricted use of the motor vehicle.

If the employee leaves the employer the novation will be cancelled by the employer and the employee will be responsible for the repayments from that time. An employee

has the flexibility of renovating the lease with a new employer.

Apart from the salary packaging benefits, other benefits include:

- The employee has the freedom of choice with vehicle selection.
- The employer is not left with a fleet of unwanted vehicles when employees leave.

## **SETTING RESIDUAL VALUES AND BALLOON RENTALS**

### **Residual Values (only for Finance Lease)**

Under the revised (Safe Harbour) depreciation (Diminishing Value) rates, the ATO has set down specific residual values for different types of equipment.

Below is a list of residuals for the most common equipments type.

Asset	Depreciation Rate	Term	Term	Term
		Residual	Residual	Residual
Car-sedans\station wagons Normal cars, vans & utes	18.25%	36	48	60
		50%	45%	35%
Commercial vehicle Small\medium truck	22.50%	36	48	60
		40%	37.50%	20%
Heavy Haulage Prime movers	30%	36	48	60
		35%	30%	30%
		30%	25%	25%
			20%	20%

This is just a brief example of more typical depreciation rates and applicable residual values. If you have queries regarding other assets please contact our office.

### **Balloon- CHP/Chattel Mortgage**

Due to the flexibility of the CHP and Chattel mortgage products an introducer can choose a balloon figure to suit there client's needs.

However, when setting a maximum balloon over a particular term we are guided by the maximum residual we would set under a finance lease.

For example, when financing a motor vehicle over a 60 month term, the highest residual for a lease is 35%. Therefore when setting the highest balloon on a CHP or

Chattel Mortgage on 60 month term we would set it at 35%. This may be negotiable for prestige type vehicles and should be discussed further with us at application stage.

## **BUSINESS SUMMARY**

Jet Lending is prepared to look at applications for any income producing plant and equipment that a business may utilise. This includes:

- Motor Cars including Panel Vans & Utes.
- Commercial Vehicles - Trucks & Buses.
- Manufacturing Equipment.
- Materials Handling Equipment Forklifts etc.
- Medical & Dental Equipment.
- Office Equipment and Computers.
- General Business Equipment.

We would consider the following items in a high risk category and less likely to finance them:

- Computers.
- Furniture, Fixtures and Fittings.
- Sale & Leasebacks
- Aged Equipment.

For us to consider these items the client would be required to have good financial strength. It would be advisable to contact our office prior to submitting applications of this nature. As a general rule we do NOT finance ANY sale and leasebacks for capital raising requirements or aircraft.

Other relevant points to note are as follows:

Applications between \$18,000 - \$350,000 are our preferred size. We will however, look at any deal outside this range on a case by case basis for the right client.

We can accept business from anywhere in Australia.

Standard approvals will last for 2 months. Pre approvals can be sought; this can be a useful marketing tool. Pre approvals provide peace of mind for the busy client and ensures you have plenty of time to arrange documents.

Which solution is best for you?

	<b>Commercial Hire Purchase</b>	<b>Finance Lease</b>	<b>Rental</b>
<b>GST</b>	Included in the purchase price. Payable on Stamp Duty and is payable upfront. Borrower is entitled to an input tax credit.	Payable on the monthly net lease payment inclusive of stamp duty. Borrower is entitled to an input tax credit.	Payable on the monthly net rental inclusive of stamp duty. Borrower is entitled to an input tax credit.
<b>Depreciation</b>	Borrower claims depreciation of equipment.	Financier claims depreciation of equipment.	Financier claims depreciation of equipment.
<b>Tax</b>	Borrower claims interest portion of monthly instalment.	Borrower is entitled to claim the net lease payment inclusive of stamp duty as a tax deduction.	Borrower is entitled to claim the net rental inclusive of stamp duty as a tax deduction.
<b>Title</b>	On completion of payment of all instalments title to the equipment flows automatically to the borrower.	In practice, the lessor (financier) will offer to sell the equipment to the lessee (borrower) for the amount of the documented residual value. However, there is no prior undertaking to do so. The lessor is not permitted to give or infer an option to purchase at any time, as this could mean that the Agreement may be negated and rentals disallowed as a tax deduction for the borrower.	The lessor is not permitted to give or infer the option to purchase at any time, as this could mean that the Agreement may be negated and rentals disallowed as a tax deduction for the borrower. In practice, the lessor will sell the equipment to the lessee; however there is no prior undertaking to do so.
<b>Balance Sheet</b>	Borrower to show the equipment as an asset and liability on its balance sheet.	Borrower to show the equipment as an asset and liability on its balance sheet.	Off balance sheet to borrower.
<b>Stamp Duty</b>	Stamp Duty is payable on the net instalment amount.	Stamp Duty is payable on the net instalment amount.	Stamp Duty is payable on the net instalment amount.

Call **1300 722 532** or [Contact Us](#) now using our contact form and our specialist consultants will call you to assist you. [www.jetlending.com.au](http://www.jetlending.com.au) © Jet Lending