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FUNDING OPTIONS FOR TRUCKS

Any advice or guidance provided here is of a general nature and is not intended to be a blueprint for every person reading this article. You should discuss your specific requirements and circumstances with your accountant or financial advisor.

There are several funding options available to truck owners (and potential owners) to enable them to acquire requisite machinery. Each option has its own set of circumstances and tax treatment. It is important that discussion with your accountant occurs prior to deciding to enter into a contract to buy a vehicle! It is too late once you have signed a deal to discover that it is not the most appropriate one for you!

Commercial Hire Purchase (CHP)

The most common mechanism used is **Commercial Hire Purchase (CHP)**. In simple terms, a CHP is a contract where the financier (the "owner") allows you (the "hirer") the right to possess and use the vehicle in return for regular payments. A "balloon" payment (a final payment made at the end of the agreed term) is optional with a CHP. Ideally, this balloon payment should be no more than the estimated value of the vehicle at that time.

A deposit towards the transaction is (depending on the financiers) optional but generally not required.

The repayments normally attract stamp duty depending in which state or territory you are undertaking the transaction.

CHP's are subject to the Goods and Services Tax (GST). Where the terms charges are disclosed in the CHP agreement, GST is calculated on the cost of the equipment less the Input Tax Credit applicable to the purchase. Repayments are not subject to GST.

With a CHP there may be significant taxation advantages as you are generally able to claim the interest payments as well as the depreciation of the asset whereas with a standard lease (we will discuss these next) the actual repayments are the tax deductible part of the equation. This only applies if the equipment is used to generate assessable income.

You also have the option to purchase the vehicle prior to the end of the term of the CHP.

Once the final payment is made on the CHP to the financier, the title of the goods is transferred to you.

A CHP may also be known as a Corporate Hire Purchase or an Asset Purchase.

Vehicle Finance Lease

The second mechanism is a **Vehicle Finance Lease**. This is one of the more straight forward methods of purchasing a vehicle. A financier ("lessor") provides the finance and the customer ("lessee") is responsible for making repayments in terms of the lease.

Low or no deposit terms may be available depending on the lessee's circumstances and the financiers (lessor's) requirements. Regular payments are determined over a period of time and generally an agreed "residual value" (the value of the outstanding at the end of the term) noted and agreed. The residual value is normally determined by the effective life of the equipment. That effective life is calculated using Australian Taxation Office guidelines.

The payments made are generally fully tax deductible depending on your taxation status and circumstances. Unlike a CHP, the interest and depreciation is not a tax deduction to you (the lessee) as the ownership of the vehicle remains with the financier (the lessor). As with a CHP, the equipment must be used to generate assessable income to get the taxation deduction of the repayments in the hands of the lessee.

At the end of the lease, you are required to return the vehicle to the financier unless the financier is agreeable for you to acquire the asset. Generally, the monetary consideration for you to acquire the asset is the residual value plus any GST component. This is not a hard and fast rule however, and you would need to ensure that you understand what the terms of the arrangement are prior to signing any contract. As mentioned above, once you have signed the deal it is mostly too late to change the arrangements!

Moral of the story; - READ EVERYTHING VERY WELL BEFORE COMMITTING TO DO THE DEAL!!! This applies no matter what the financing methodology is that you elect to utilise.

Traditional Funding

A further alternative is to seek a term loan/line of credit (or similar) from your bank. In this scenario, generally, the bank will require you to provide security in the form of a mortgage over your house. They may also require a specific charge over the vehicle being acquired (this is normally a REVS charge – Register of Encumbered Vehicles charge)

However, this option is a good one if you wish to consolidate your debts and negotiate one regular repayment.

Most trucking ventures require machinery at various times and sometimes enter into one arrangement after another and wind up with a number of monthly repayments that they need to meet from their cash flow. The more repayments the more potential stress on the business cash flow!! Adopt the KISS principle if possible.

It is worth considering whether there is some value in consolidating these financing arrangements such that a (perhaps) more manageable repayment structure can be obtained.

Again, as with the aforementioned methods of financing, there are taxation considerations to be determined and the advice of your accountant is paramount in this suggestion as much as the others.

The secret to a successful business is a comfortable and regular cash flow. Anything that a proprietor can do to improve the cash flow of the business and in turn reduce the cash flow stress, the more probable it is that the business will succeed and prosper.

This presupposes that the business has abided by all corporate governance requirements and has an up to date and written business plan with specific forecasts prepared so as to check progress of the venture.

REMEMBER: - A BUSINESS THAT FAILS TO PLAN WILL GENERALLY FAIL!!!