




# Equipment and Motor Vehicle Lease


## Strategies and How to

This webinar will commence at 11m AEST. Please use the chat feature to ask any questions throughout the webinar.


13 August 2020



*Believe it or not but motor vehicle leases have been very closely tied to the superannuation industry since the late 1980's when a new life insurance company – Citicorp Life, owned by Citibank came to town. You may have heard of this story when we discussed annuities and how they were all the rage in the last 1980's when interest rates in the low to mid teens. Yes around 13%!*



*These five year annuities attracted a lot of superannuation rollover money and surprise, surprise Citicorp Life invested them in motor leases. By the year 1991 Citicorp Life had more than 97% of the Australian motor lease receivables market.*



# Key Terms and Conditions of different leases

	<b>Finance Lease</b>	<b>Consumer Loan</b>	<b>Hire Purchase</b>
<b>Terms</b>	Lease term is up to you but would typically be 3 to 5 years	Loan contracts are usually signed for 3 to 5 years. 7 year terms are available in certain cases.	Loan contracts are usually signed for 3 to 5 years, but again it is up to you
<b>Type of vehicle</b>	Vehicle choice is up to you and your budget! The lender owns the vehicle for the term of the lease. You may have the option to purchase it at the end of the term.	Vehicle choice is up to you and your budget! You own the vehicle and security over it would be removed once you have made your final repayment	Vehicle choice is up to you and your budget! You own the vehicle once you have made your final repayment (including a balloon payment if applicable).
<b>Up-front costs</b>	Up-front costs usually include the first month's rental, stamp duty and registration fees, although you can sometimes finance the on-road costs.	Up-front costs usually include a deposit, stamp duty (in some states), and establishment & registration fees. Most of these government fees can be added to the loan.	Up-front costs usually include a deposit, stamp duty, registration fees and your first loan repayment. Some of these fees can be added to the amount financed.
<b>Repayments</b>	Payments are calculated based on the vehicle's cost excluding GST, the term of the lease, interest charges, duties, and other fees. GST is charged on each lease rental payment.	Loan repayments can be monthly or fortnightly, and are based on the total amount of the purchase price inclusive of GST, plus interest charges, duties and other fees. GST is not payable on the loan repayments.	Monthly loan payments are based on the total amount of the purchase price inclusive of GST, plus interest charges, duties and other fees. GST is not payable on the loan repayments.

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<b>Balloon/Residual</b>	A Finance Lease must have a balloon payment which reflects the value of the vehicle at the end of the term. Typical scenarios are: 3 years with 45% residual 4 years with 35% residual 5 years with 25% residual Balloon variances of up to 5% either way is common	It is uncommon to have a balloon payment on consumer loans, however the facility is available and applications are welcome. A balloon payment will reduce your regular repayments and assist your budget requirements. But remember, what you don't pay now, you do pay later!	Unlike Lease, with Hire Purchase you have the option with or without a balloon. The balloon does little to your overall tax claim, and its main benefit is to suit individual budgets and affordability. Typical terms and balloons are similar to that shown in Lease column.
	<b>Finance Lease</b>	<b>Consumer Loan</b>	<b>Hire Purchase</b>
<b>Insurance</b>	Comprehensive insurance is compulsory and the responsibility for payment of premiums rests with you.	Comprehensive insurance is compulsory and the responsibility for payment of premiums rests with you.	Comprehensive insurance is compulsory and the responsibility for payment of premiums rests with you.
<b>Early termination</b>	You are responsible for any early termination charges stipulated on the lease contract. Make sure you understand them.	You are responsible for paying off the loan, there could be costs associated with early repayment of the loan.	You are responsible for paying off the loan, there could be costs associated with early repayment of the loan.
<b>Vehicle return</b>	With a finance lease it is accepted practice to make an offer for the vehicle at the end of the term.	You keep the car! On making final payment you own the vehicle unencumbered.	You keep the car! On making final payment (including a balloon payment if applicable) you own the vehicle.

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<b>Future value</b>	You are responsible for any difference between the residual value and the market value with a finance lease.	If you decide to sell or trade-in the vehicle at the end of the loan term, the risk of its future value is yours.	If you decide to sell or trade-in the vehicle at the end of the loan term, the risk of its future value is yours. You also have the option of refinancing the balloon amount over a new term if you choose to keep the car longer.
<b>Maintenance</b>	You are responsible for the maintenance of the vehicle during the lease term. An operating lease may include a maintenance contract which would transfer this responsibility to the lessor.	You are responsible for the maintenance of the vehicle.	You are responsible for the maintenance of the vehicle.
<b>Kilometers during the term</b>	An operating lease may impose a limit on the number of kilometers you may travel. However, bear in mind that the higher the kilometers the higher the lease rental. There will most likely be extra charges if the actual kilometers exceed the limit set on the contract when you return the vehicle. With a Finance Lease there are no restrictions, however, high kilometers will affect the market value.	No limit. The vehicle is yours. Drive it as you please. However, the higher the kilometers, the lower the resale or trade-in value of your vehicle.	You are responsible for the maintenance of the vehicle. No limit. The vehicle is yours. Drive it as you please. However, the higher the kilometers, the lower the resale or trade-in value of your vehicle.

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	<b>Finance Lease</b>	<b>Loan</b>	<b>Hire Purchase</b>
<b>End of term</b>	At the end of an operating lease you simply return the vehicle. With a Finance Lease you can return the vehicle and pay any difference between the residual value and the market price or make an offer to purchase the vehicle for the residual value.	At the end of the loan term, the vehicle is yours to keep.	At the end of the loan term, the vehicle is yours to keep (provided all payments have been made, including a balloon payment if applicable).
<b>Tax Benefits</b>	You claim the monthly repayments as your tax deductible expense based on the percentage of business usage, together with the ongoing running expenses of the vehicle.	You can claim depreciation of the purchase price of the vehicle plus interest charges as your tax deductible expense based on the percentage of business usage, together with the ongoing running expenses of the vehicle.	Same as Loan.
<b>Claim limit</b>	Passenger vehicles over the motor vehicle depreciation cost limit (also known as luxury car limit) cannot be claimed as a lease. This cost limit is indexed and adjusted annually. For the 2011/2012 income year the cost limit is \$57,466.	The claimable depreciation is limited by the motor vehicle depreciation cost limit. The purchase price above this limit cannot be claimed. The portion of interest calculated for the amount over the limit also cannot be claimed.	Same as Loan

# Who can be a Lessor?

- Typically a finance company or a bank will be the lessor. A company such as Daimler Benz Finance and they would produce all the documents including lease agreements and guarantees
- With LightYear Docs the Lessor is a non-finance company and may include:
  - A Spouse
  - Family Trust
  - Bucket Company
  - SMSF (subject to in house assets test)

# Who can be a Lessee?

- Any business including sole trader, discretionary trust, company and partnership
- Personal including spouse, children and any individual
- Charities
- BUT if the lessor is a SMSF then section 65 prevents the trustee of a SMSF from providing financial accommodation to a member. However section 65 does not apply to related trusts or companies





# What's on?



Member



AM AM Brisbane	<a href="#">LYD: Equipment and Motor Vehicle Lease Agreement</a>	861 8174 0086
Aug 19 PM	<a href="#">ILS: Email Marketing and Data Base Collection</a>	839 7790 0070
Aug 20 AM AM Brisbane	<a href="#">LYD: What happens to companies on the death of the Founder</a>	829 6249 0044
Aug 27 AM AM Brisbane	<a href="#">LYD: Advanced Health Care Directive</a>	875 4468 7589
ep 3 AM AM Brisbane	<a href="#">LYD: Living Wills - The Enduring Guardian</a>	828 5789 5989
ep 10 AM AM Brisbane	<a href="#">LYD: Living Wills - Binding SMSF Direction</a>	876 8718 4868
ep 15 PM	<a href="#">ILS: Living Will Case Studies for Strategists Part I</a>	813 4151 1853
ep 17 AM AM Brisbane	<a href="#">LYD: The Living Trust</a>	868 0064 9767
Oct 1 AM AM Brisbane	<a href="#">LYD: SMSF Income Stream Basics</a>	860 0676 6343



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