



FACT SHEET

Acquiring a New Vehicle

Looking to Acquire a New Vehicle?

If you receive a car allowance from your employer to cover business use of your vehicle and you decide to acquire a new vehicle, there are several acquisition options available to you:

- Purchasing a vehicle outright
- Acquiring a vehicle via a Hire Purchase arrangement
- Leasing a vehicle via a Lease arrangement

1. Purchasing Outright

When considering whether to purchase outright or finance, you need to consider any alternative uses of your money. If you use your vehicle for work-related purposes, it is likely to be more tax advantageous to finance the purchase of your vehicle as the business use portion of interest paid will be deductible. Your available cash can then be used to offset loans where there is no tax advantage, such as a personal loan or your mortgage.

2. Hire Purchase arrangement

Hire purchase arrangements are a way of financing vehicle purchases. You take ownership of the vehicle in exchange for a loan secured by the vehicle. Monthly repayments are made over a finance term of between 3 and 5 years usually, and at the end of the finance term a balloon payment of generally between 30 and 50% of the financed amount is required to end the hire purchase contract. The interest rate is usually higher than the average home loan interest rate but lower than the average personal loan interest rate.

3. Lease arrangement

Lease arrangements are similar to hire purchase arrangements however under a lease arrangement, the lessor retains ownership of the vehicle during the finance term. Therefore, the monthly repayments are akin to rental payments. At the end of the lease term you have the option of taking ownership of the vehicle by paying a balloon payment similar to that required under a hire purchase agreement. Leasing terms and interest rates are also similar to those of hire purchase arrangements.

Tips and Hints

If deciding to finance the acquisition of your vehicle:

- Shop around for the best interest rate. Your bank may offer you a more competitive rate than your car dealer
- Consider gap insurance. Gap insurance covers you for the difference between the insured value of the vehicle and the amount owing on the finance contract in the event the vehicle is stolen or written off during the finance term

What Next?

See our fact sheet "Claiming Work-Related Car Deductions" for information on calculating your work-related car deductions under the various acquisition options outlined above. Contact your manager or partner at Enspira Financial to discuss this further in respect of your individual situation.

Disclaimer: The information contained in this fact sheet is not intended as specific advice. Please contact Enspira Financial to discuss your individual situation.

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