Guide to Car Financing for Medical Professionals

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Whether for hospital shifts, hospital rotations, travelling to and from practice or hospital or even home visits, the benefits that come from the flexibility, independence, comfort and time efficiency of a new car with high passive and active safety features is hard to beat.

Buying a car, especially a brand new one, can be an exciting experience. The likelihood is that you probably won't buy it outright - what's more likely is that it will be financed. Whether it's your first ever vehicle, or you're upgrading or responding to changing needs, it is important that you have a good understanding of the different finance options available to you.

One very important consideration is (most) cars are adepreciating asset; their value decreases over time. Therefore, minimising the amount you borrow to buy a car is a good idea as it won't hold its value the longer you own it. There are tax advantages to some of the financing options, and of course the added advantage that you can get the car now rather than later.

Unless you choose to buy it outright, the following are the main ways you can finance a new car in Australia:

1. Loan (vehicle or personal)
2. Dealer finance
3. Car lease
4. Credit card
5. Hire purchase (businesses only)
6. Chattel mortgage (businesses only)

Let's have a look at each of these options and the pros and cons. Remember, that the convenience of acquiring a car now, comes at a price – even when you're using a tax effective strategy.

Loans

There are over 400 different personal loan products available on the Australian market. You can either get a general **Personal loan**, where the financier lends you funds for you to purchase a vehicle (or anything else), and they do not hold any security over the loan. Or you can get a **Car loan**, where the loaned amount is specifically for the purchase of a vehicle. Car loans differ from personal loans because the financier secures the loan against the car purchased (meaning if you do not meet the required payments, the car can be repossessed). Both personal and car loans are either **variable rate** (rate can move up and down), or **fixed rate** (rate is locked at the time the loan is taken out).

Two important differences between car and personal loans are:

1. Car loans generally have lower interest rates compared with personal loans because the loan is tied to the vehicle; if you default on the loan the lender can use the car as collateral
2. No early exit loan fees on all **new** car loans offer , handy if you plan on possibly paying off the car earlier than the length of the loan

Who does this finance option suit?

Personal or vehicle loans are good for first time buyers that are not buying the car for business use, and do not have the option of a novated lease. They are simple and easy to understand options, but can incur higher interest rates (especially personal loans).

Dealer finance

This option involves the direct negotiation with a car sales person at the place of purchase (dealership). When you elect to finance through a dealership you are likely to have no choice or little choice about the lender or nature of the finance, as this is all organised by the dealership. Dealers typically have an arrangement with a bank or other finance company and you are locked in to that provider if you buy a car from that dealership. A good tip is to go into the negation process with a pre-approved well priced loan option from elsewhere and then see if the dealer can beat it. You can try to negotiate the interest rate and fees at the same time you negotiate the price of the car. Dealer finance may have a lower interest rate than a personal or car loan and sometimes

0% interest rate deals but there are always fees and conditions attached to this. 0% interest rates can be a misnomer. That is because a dealer can market a higher vehicle sale price, whilst then financing the vehicle with the finance company at a lower price, ensuring that the finance company is in effect earning its required return.

Who does this finance option suit?

This is a preferred option for buyers that are strong negotiators, want a new car and have a deposit saved. It is possible to find and negotiate a dealer finance option that is better than a car loan and vice versa, but you must do your research!

Car lease - Finance

A finance lease is a commercial finance product where the financier purchases the vehicle for the customer and retains ownership of the vehicle for the duration of the lease. The customer then leases the car from the financier by paying a fixed monthly amount. At the end of the lease the customer has three options:

1. Pay the residual value on the lease (last instalment) and take ownership of the vehicle, or
2. Trade in the car
3. Re-finance the remaining residual value and continue the lease

A finance lease is commonly utilised by small business owners or when the vehicle is used for business purposes, as the GST contained in the car's purchase is claimed back by the financier. As this lease has the vehicle secured against it, often interest rates are lower than in a personal or car loan. Additionally, if the amount financed is below the depreciation limit ($57,581 for the 2016/17 financial year), the customer can potentially claim the lease payments as a tax deduction.

Tip: the vehicles resale value is an important consideration, as at the end of the lease agreement the option to buy or trade in the car comes into play.

Who does this finance option suit?

A finance lease is best suited to companies or sole traders where the leased vehicle is used for business purposes that generate an income, to fully maximise the tax benefits.

Car lease - Novated

By far the most popular form of car leasing is a Novated Lease; a three-way contractual agreement between an employer, an employee and a finance company. You the employee, enter into a car lease with a financier, and your employer agrees to pay the monthly lease expenses. These expenses are deducted from your income, pre-tax. If your job situation changes and you move to another employer, the novated obligations cease to exist with the previous employer and revert back to you. You then have the option to renovate the lease with your new employer.

Some examples of the types of operating expenses that can be packaged into a novated lease are:

- Fuel and oil
- Service, maintenance and tyres
- Registration and insurance
- Accident management

One major drawcard of novated leases are the possible tax benefits. Because your employer deducts the expenses out of your salary pre-tax, it will lower your taxable income and potentially place you in a lower tax bracket. Novated leases will also save you any GST you would normally pay when buying a new car. There used to be a requirement to travel certain amounts of kilometres each year, but as of April 1 2014 this has been abolished, meaning a novated lease is certainly a viable option even if you do not use your car for traveling long distances. Depending on your salary, you can save money compared to standard lease or even after-tax methods such as dealer finance or car loans.

Who does this finance option suit?

A novated lease will suit anyone with a full-time job on a moderate or higher wage where their employer offers salary packaging.

Tip: Both types of car leases (novated and finance) can get quite complicated. It is recommended you fully research your available options and possibly speak with a professional financial planner before entering any agreement to ensure you receive the best value for money option.

Credit card

Credit cards typically have a high interest rate, usually over 18%, so unless you have the necessary borrowing limit and can pay off a debt for a car rapidly, this can be a high-risk way to purchase a car. However, some credit cards have extensive interest free periods (up to 62 days). If you can make use of this interest free period and pay the balance of your car off within the period, this may not be such a bad option. However, be very mindful that you know **exactly** what the cost of the loan will be over its duration, including all account fees and charges. Credit card companies can make a lot of money from you when you pay interest, however avoid doing so and a credit card can be a viable car purchase option.

Some cards include a low interest period when you first acquire the card for any balance you transfer from your existing card. For example, 0% for the first 6 months on balance transfers, then 20% thereafter. An astute purchaser could purchase a car on one card, then transfer the balance to a new card acquiring an interest free period of 6, 12 or even 24 months. The big catch is that if you can't make the payment by the due date, then you could have to stomach a very high interest rate on a large amount over the full period. This option is sometimes used by people who are confident they can settle the balance of the card within the period and have assets they can sell readily (eg shares) to pay. However, it should be remembered that you may not be approved for another credit card if you already have multiple open with outstanding balances and your credit card rating can be affected, both of which could catch you off guard.

Tip: Most dealers will charge a credit card surcharge of 1-2% depending on the card you are using and you can't use this method when purchasing through a private seller.

For more information read personal loan vs credit card.

Who does this finance option suit?

Someone that has either a credit card with a long interest free period available, or and individual that has the car purchase amount in available funds and will pay back the credit card debt very quickly.

Chattel mortgage

A chattel mortgage is only available where the car is used for business 50% of the time. The majority of chattel mortgages are taken out by individuals that own their own small-medium business. A chattel loan usually has lower interest rates than personal loans, as the loan is secured to a vehicle and because personal loans can also include account fees and other charges. Another benefit of a chattel mortgage is possibility that GST (if the business is registered for GST), vehicle depreciation and interest can be claimed back through the business activity statement and income tax return. This type of finance option is available from 12 to 60 months, with some being extended even longer. Under this method, when you have found the car you want a finance company purchases the vehicle on your behalf, and then you make regular loan repayments much like any other mortgage.

Who does this finance option suit?

Small and medium business owners that will use the purchased car for at least 50% of the time and are looking to make the most out of the tax benefits available.

Commercial Hire purchase (businesses only)

A hire purchase is similar to a car lease but is generally designed for businesses. The financer purchases the car on your behalf and then you hire the car from them for a period with the option to purchase it at the end of the hire period. Under hire purchase you do not own the vehicle, however have exclusive hire of the vehicle during the duration of the hire.

Under this option, you are generally required to place a deposit, say 10%, (but not in all cases) and then make fixed monthly payments for an agreed period of usually 1 to five years. If you fail to make the payments, the finance company may seize the car. At the end of the period, you have the option to pay a transfer fee, and if applicable the outstanding (balloon) balance, and then own the vehicle or you can walk away.

Who does this finance option suit?

This is a preferred option for businesses or individuals using a car for business purposes who need to update their car regularly or want some flexibility with their capital, rather than purchasing vehicles outright.

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