Boosting Business Returns Without Breaking The Bank

Having the capital to adapt to market changes, expand or pivot into other products or services can be a challenge for many business owners.

Whether it is machinery, vehicles, IT or specialist equipment, finance can give you access to the funds required to keep your business running, scale up or diversify, without taking a huge hit to your business savings or cash flow.

In Australia, we are lucky in that we have a number of options when it comes to business finance. It can sometimes be difficult to know the right option for your business. We are here to help you decide.

Your first consideration is what kind of assets you will be acquiring. There are three commercial finance options to choose from: a chattel mortgage, a lease or hire purchase. Understanding the features, levels of asset ownership and benefits of each will help you decide which one is right for your business.

What Is Debt Consolidation?

A chattel mortgage is a finance agreement that provides funds to purchase an asset. The finance provider uses that asset as security for the loan. A chattel mortgage is often a popular choice for car and equipment finance.

Pros	Cons
The business retains full ownership of the assets funded by the lender as the asset is used as security	You are unable to sell the asset during the term
Interest rates are usually lower than unsecured loans and can be fixed or variable	The cost is not only based on the interest rate. Be aware of fees and charges
As you own the asset, it appears on your balance sheet as an asset	The finance shows as a liability on your balance sheet
Some lenders allow a balloon (or residual payment) which can be set at the end of the term to lower the monthly payments	If you are unable to meet your repayments, your financer may repossess your asset
You could claim the GST on the initial purchase price on your Business Activity Statement	

Lease

Leasing means you borrow an asset under a contract. Leasing makes it simple to upgrade when the lease term expires.

When considering a business lease, it is important to choose the right type. In Australia there are two types:

1. A finance lease is generally used for higher value and longer term purchases.
2. An operating lease is a short to medium term lease used for assets that have a shorter life span or that may need to be turned over or upgraded more quickly.

The primary difference between a finance lease and an operating lease is ownership. Under a finance lease you pay off the asset over a longer period and retain ownership at the end of the lease usually following a final balloon or residual payment. At the end of the operating lease agreement, the assets are returned to the lender[1].

Here are the pros and cons of both:

	Pros	Cons
Finance lease	Generally, you have the option to take ownership of the asset at the end of the lease term Does not appear on the balance sheet as an asset or liability You most likely will be able to claim tax deductions for the lease payment	The lender has actual ownership of the asset during the lease You are responsible for maintenance and repairs
Operating lease	Tax deductible ongoing repayments Exclusive rights to use of the asset No residual risk Most involve all-inclusive fixed payments Does not appear on the balance sheet as an asset or liability	You do not own the asset Generally the payments are at a higher cost than other lease arrangements Temporary arrangement with no guarantee of continuing with asset at the end of the lease agreement

Hire purchase

A hire purchase allows you to obtain the equipment you need for your business by hiring it over a fixed term while making regular payments.

Pros	Cons
You will own the asset at the end of the hire purchase term You can generally claim the GST[2] You can claim depreciation and interest charges on the contract[3] The monthly and residual payments are not charged GST[4]	The financier owns the asset for the duration of the hire purchase agreement Be aware of all costs, payments and fees. Some hire purchase agreements can be costly If your hire purchase agreement has defaulted, the financier may take action to repossess the asset

Instead of buying equipment, machinery or vehicles on an outright basis that is detrimental to cash flow, many of our clients choose to finance these assets through asset finance. Making gradual payments, taking ownership at the end of the finance or simply using the equipment for a period of time, means these businesses can boost their revenue or improve efficiency without the significant initial drain on the financial resources of the business before the benefits begin.

If you have not used asset finance before, it is generally more flexible than traditional bank loans – a big plus for business owners. If you are unsure of which finance option is more suitable for your business needs, call us, your finance specialist, and we will assist you in assessing the options available.

To help improve your chance of approval, see our 'Asset Finance Application Checklist' or call us today. We could help you achieve business success.

1 Finder, Guide to operating leases: https://www.finder.com.au/operating-leases

2 ATO, GST – Hire purchase and leasing: https://www.ato.gov.au/business/gst/in-detail/rules-for-specific-transactions/agent,-consignment-and-progressive-transactions/gst---hire-purchase-and-leasing/

3, 4 Finder, Commercial Hire Purchase: https://www.finder.com.au/commercial-hire-purchase