

## COMPARING FORMS OF BUSINESS FINANCE

Below is a summary only of various financing options to assist in evaluating the most appropriate form of finance for your business needs.

Criteria	Operating Lease	Finance Lease	Chattel Mortgage	Commercial Hire Purchase
Purpose/Suitability	For high depreciating equipment with up to 5 years life span (IT, computing, machinery, office & business equipment, AV, security, gaming machines, etc)	Best suited for financing items with longer effective usage (motor vehicles, large commercial and earthmoving equipment, trucks, etc)	Mainly for small to medium businesses who wish to retain the equipment at end of term and adopt the accounting 'cash basis' practice	For businesses where owning the asset is critical (such as high value/luxury vehicles or equipment with long performance life and low depreciation)
Who owns the equipment	Finance provider (although business can make an offer to purchase at end of term)	Finance provider (although at end of term the business is legally obliged to either purchase the equipment or make good any shortfall the financier realises on disposal of the equipment)	Business (but finance provider has mortgage over goods until final payment)	Business (with ownership finalised with final balloon payment)
Impact on cashflow	Manageable & predictable (fixed over life of term)	Manageable & predictable (fixed over life of term)	Manageable & predictable (fixed over life of term)	Manageable & predictable (fixed over life of term)
Term	Up to 5 years (determined by business)	Up to 5 years (determined by business)	Up to 5 years (determined by business)	Up to 5 years (determined by business)
Flexibility (ability to vary agreement mid term)	Yes (at any time can vary agreement ie with equipment upgrades and/or add-ons)	No (to upgrade must pay out existing agreement and then take out a new one)	No (to upgrade must pay out existing agreement and then take out a new one)	No (to upgrade must pay out existing agreement and then take out a new one)
Balloon or residual (ie payment at end of term based on agreed % of future value of equipment)	Nil	Varies by agreement (higher the residual payment the lower the monthly payment)	Varies by agreement (higher the residual payment the lower the monthly payment)	Varies by agreement (higher the residual payment the lower the monthly payment)
Residual risk (ie sale price at end of term is less than initially agreed future value)	Nil (risk lies with finance provider)	Yes (the obligation and risk lies with business)	Yes (the obligation and risk lies with business)	Yes (the obligation and risk lies with business)
Software, services & intangible costs	Up to 100% of intangible costs	Up to 100% of intangible costs	Up to 100% of intangible costs	Up to 100% of intangible costs
Accounting	Normally 'off' balance sheet (treated as operating expense and improves financial ratios)	Appears as both an asset and liability 'on' balance sheet as capital expenditure	Appears as both an asset and liability 'on' balance sheet as capital expenditure	Appears as both an asset and liability 'on' balance sheet as capital expenditure
End of term options	Various (continue leasing, offer to buy equipment, return equipment at no additional cost or new equipment lease)	Limited (pay residual & keep equipment or return equipment with obligation to make good any shortfall or refinance)	Nil (business takes ownership of equipment)	Nil (business takes ownership of equipment)
Who is responsible for equipment disposal	Finance provider	Business	Business	Business
Who bears the risk of obsolescence	Finance provider	Business	Business	Business
Tax Treatment	Repayments are 100% tax deductible (provided equipment used solely for business purposes)	Interest plus depreciation are 100% tax deductible (provided equipment used solely for business purposes)	Interest plus depreciation are 100% tax deductible (provided equipment used solely for business purposes)	Interest plus depreciation are 100% tax deductible (provided equipment used solely for business purposes)

It is recommended independent advice is gained from your accounting and/or taxation professional.