

# Novated leasing and other car financing options for doctors

Factsheet  
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**Buying a new car is exciting. But while you're deciding on the make and model, you should also plan for how you will pay for it. Our guide to various car financing options may help.**

You're progressing through your medical career and often one way of rewarding yourself is by purchasing a new car. There are plenty of luxury car brands that will market to you, as a doctor, along with salary packaging, leasing and financing companies – all with various offers of finance and often with the allure of tax benefits.

The reward of new wheels can be short-lived though, once the regular repayments kick in, along with the typical post-purchase dissonance (or buyer's remorse) associated with large depreciating asset purchases. So before you take the plunge, here are some pertinent things to think about and, if necessary, seek advice on.

On an affordability basis, here is a ready reckoner of monthly repayments based on various balloons and interest rates for standard loans and hire purchase arrangements:

## How much should I spend?

First, you need to make sure over the longer term you can actually afford the repayments. Most cars will be financed on the basis of an end 'balloon payment'. This keeps payments more affordable for the duration of the financing agreement but at the end, if you want to keep the vehicle, you will need to find the cash to fund the balloon payment, which is typically 50% for a three-year or 30% for a five-year loan/lease term. Consider financing with no balloon if you intend to keep the car for a longer period or don't want to get trapped into a non-competitive trade-in arrangement, because your now used car is worth less than the outstanding balloon amount.

### Purchase cost – monthly repayments 3-year term with 50% balloon

	\$20,000	\$40,000	\$60,000	\$80,000	\$100,000	\$120,000	\$140,000	\$160,000	\$180,000	\$200,000
10%	-\$400	-\$801	-\$1,201	-\$1,602	-\$2,002	-\$2,402	-\$2,803	-\$3,203	-\$3,604	-\$4,004
9%	-\$388	-\$777	-\$1,165	-\$1,554	-\$1,942	-\$2,331	-\$2,719	-\$3,108	-\$3,496	-\$3,884
8%	-\$376	-\$753	-\$1,129	-\$1,506	-\$1,882	-\$2,259	-\$2,635	-\$3,011	-\$3,388	-\$3,764
7%	-\$364	-\$729	-\$1,093	-\$1,457	-\$1,822	-\$2,186	-\$2,550	-\$2,915	-\$3,279	-\$3,643
6%	-\$352	-\$704	-\$1,057	-\$1,409	-\$1,761	-\$2,113	-\$2,465	-\$2,817	-\$3,170	-\$3,522
5%	-\$340	-\$680	-\$1,020	-\$1,360	-\$1,700	-\$2,040	-\$2,380	-\$2,720	-\$3,060	-\$3,400
4%	-\$328	-\$655	-\$983	-\$1,311	-\$1,638	-\$1,966	-\$2,294	-\$2,621	-\$2,949	-\$3,277
3%	-\$315	-\$631	-\$946	-\$1,261	-\$1,576	-\$1,892	-\$2,207	-\$2,522	-\$2,838	-\$3,153

Interest rate

### Considerations:

Think about aligning your repayments frequency with your pay cycle.

**Always in a doctor's best interest**



### Purchase cost – monthly repayments 5-year term with 30% balloon

	\$20,000	\$40,000	\$60,000	\$80,000	\$100,000	\$120,000	\$140,000	\$160,000	\$180,000	\$200,000
10%	-\$342	-\$685	-\$1,027	-\$1,369	-\$1,712	-\$2,054	-\$2,396	-\$2,739	-\$3,081	-\$3,423
9%	-\$331	-\$663	-\$994	-\$1,326	-\$1,657	-\$1,989	-\$2,320	-\$2,652	-\$2,983	-\$3,315
8%	-\$321	-\$641	-\$962	-\$1,282	-\$1,603	-\$1,924	-\$2,244	-\$2,565	-\$2,885	-\$3,206
7%	-\$310	-\$619	-\$929	-\$1,239	-\$1,549	-\$1,858	-\$2,168	-\$2,478	-\$2,788	-\$3,097
6%	-\$299	-\$598	-\$896	-\$1,195	-\$1,494	-\$1,793	-\$2,092	-\$2,391	-\$2,689	-\$2,988
5%	-\$288	-\$576	-\$864	-\$1,152	-\$1,440	-\$1,728	-\$2,016	-\$2,303	-\$2,591	-\$2,879
4%	-\$277	-\$554	-\$831	-\$1,108	-\$1,385	-\$1,662	-\$1,939	-\$2,216	-\$2,493	-\$2,770
3%	-\$266	-\$532	-\$798	-\$1,064	-\$1,331	-\$1,597	-\$1,863	-\$2,129	-\$2,395	-\$2,661

Interest rate

#### Considerations:

Consider aligning the finance period with the warranty period of your vehicle. That way, you're not left with a debt if something goes wrong.

### Purchase cost – monthly repayments 5-year term with no balloon

	\$20,000	\$40,000	\$60,000	\$80,000	\$100,000	\$120,000	\$140,000	\$160,000	\$180,000	\$200,000
10%	-\$421	-\$841	-\$1,262	-\$1,683	-\$2,104	-\$2,524	-\$2,945	-\$3,366	-\$3,786	-\$4,207
9%	-\$412	-\$824	-\$1,235	-\$1,647	-\$2,059	-\$2,471	-\$2,882	-\$3,294	-\$3,706	-\$4,118
8%	-\$403	-\$806	-\$1,209	-\$1,611	-\$2,014	-\$2,417	-\$2,820	-\$3,223	-\$3,626	-\$4,029
7%	-\$394	-\$788	-\$1,182	-\$1,576	-\$1,970	-\$2,364	-\$2,758	-\$3,152	-\$3,546	-\$3,940
6%	-\$385	-\$770	-\$1,156	-\$1,541	-\$1,926	-\$2,311	-\$2,696	-\$3,081	-\$3,467	-\$3,852
5%	-\$376	-\$753	-\$1,129	-\$1,506	-\$1,882	-\$2,258	-\$2,635	-\$3,011	-\$3,388	-\$3,764
4%	-\$368	-\$735	-\$1,103	-\$1,471	-\$1,838	-\$2,206	-\$2,574	-\$2,941	-\$3,309	-\$3,677
3%	-\$359	-\$718	-\$1,077	-\$1,436	-\$1,795	-\$2,154	-\$2,513	-\$2,872	-\$3,231	-\$3,590

Interest rate

#### Considerations:

If you are planning to keep your car after the finance term, then consider a finance plan with no balloon.

These types of financing arrangements are typically made through hire purchase agreements and consumer personal loans.

## Work offers me salary packaging for cars using novated lease – what's that?

A novated lease means your employer pays for your car under a lease and all the operating costs such as fuel, maintenance, insurance and registration. The employer will deduct a before and after tax amount from your pay for this expense. This is a popular salary packaging benefit for employed doctors and those who are employed by their own medical practice.

The benefits of a novated lease lie in the tax savings they can provide. Here are some of the things novated lease and salary packaging companies use to promote their benefits:

Claimed benefit	Fact check
You'll save on the cost of the vehicle because there is no Goods and Services Tax (GST).	Correct if you are a Pay As You Go (PAYG) employee. If you have your own practice and Australian Business Number (ABN) there are other options available.
Better vehicle purchase price due to lease company purchasing power	Usually correct but not always as significant as promoted.
Tax savings	There are tax savings to achieve if you have no business use. However, there is also Fringe Benefits Tax payable, which is then passed on to you by your employer. If you don't use your vehicle for work-related purposes then a novated lease can provide real tax benefits.

### Considerations:

- Obtain a novated lease quote and then use the price quoted to negotiate a similar price yourself. Dealerships wanting your business will usually price match.
- For novated leases be aware of the interest rate charges and other fees payable. These can be high and may quickly erode any taxation benefits. A financial advisor can help you calculate what's best for you.

### Taxation considerations

You can claim the cost of work-related car expenses if they are incurred while performing your job as an employee (including being an employee of your own medical practice). For doctors, this typically includes:

- travelling from your home to an alternative workplace where you do not regularly work

- travelling between multiple places of work (this can be particularly relevant for doctors with multiple consulting rooms, or where you split your time between consults and procedures)
- travelling to conferences, meetings or other events required by your employer or business.

In the above cases, it can be worthwhile to keep a logbook of your work-related travel. The logbook must record all business journeys over a 12-week period, detailing:

- when the logbook period begins and ends
- the vehicle's odometer readings at the start and end of the period
- total kilometres travelled
- the business percentage for the logbook period.

For each journey in the logbook, you must record:

- start and finishing times for the journey
- odometer readings at the start and end of the period
- kilometres travelled
- reasons for the journey
- if you make two or more journeys on the same day, you can record them as a single journey.

For other record keeping, you need to keep receipts for the following:

- insurance
- servicing
- repairs
- fuel (you may also use an estimate for the period)
- annual finance statements summarising interest expense and other fees.

Once you have kept your logbook for 12 weeks, you can use this to claim a percentage of the running cost of your vehicle plus depreciation costs for the next five years, at which stage you will need to start a new logbook.

### Considerations:

- If you want to ensure maximum tax benefit of your vehicle purchase then aim to buy a car below the Luxury Car Tax (LCT) threshold of \$75,526 for fuel efficient vehicles (less than seven litres per 100km combined) or \$67,525 for other vehicles. Any amounts above this threshold attract an additional 33% LCT. In addition, the maximum value of a car for depreciation purposes in financial year 2020 is \$57,581.

## Scenario one: no business use

Dr Marques would like to purchase a new BMW 3 Series. He is unsure whether to take a novated lease or take advantage of the hire purchase offer from the dealership. His annual income is \$180,000 p.a.

Car purchase details	Novated lease	Hire purchase
Purchase cost including all on roads i.e. total financed amount	\$59,436	\$65,380
Monthly payment from pre-tax salary	\$729	
Monthly payment from post-tax salary	\$1,041	\$1,091
Insurance and running costs for hire purchase		\$366
Tax refund monthly offset		
Total impact on monthly take-home pay	\$1,496	\$1,457
Annual after-tax cost	\$17,952	\$17,478

Here, the actual after-tax cost of the hire purchase is \$474 cheaper per annum than acquiring the car under a novated lease. Why is this?

- The interest rate applied to finance under the novated lease quote was 6.19%.
- The interest available from the dealership was 4.5%.
- The cost of comprehensive insurance and other ongoing costs through the novated lease provider were significantly higher than what the customer was able to obtain themselves directly, including \$400 difference in the cost of comprehensive car insurance.

## Scenario two: 80% business use

Dr Carr would like to purchase a new Porsche Cayenne. He drives a lot between practices and his business use is 80%. His annual income is \$300,000 p.a.

Car purchase details	Novated lease	Hire purchase
Purchase cost including all on roads i.e. total financed amount	\$114,473	\$125,921
Monthly payment from pre-tax salary	\$3,178	
Monthly payment from post-tax salary		\$2,101
Insurance and running costs for hire purchase		\$351
Tax refund monthly offset		<b>-\$1,163</b>
Total impact on monthly take-home pay	\$1,541	\$1,289
Annual after-tax cost	\$18,497	\$15,470

Here, the actual after-tax cost is a saving of \$3,027 using hire purchase compared to a novated lease. Why is this?

- The interest rate to finance under the novated lease was 6.06% compared to the hire purchase rate of 4.9%.
- The depreciation under hire purchase provided a larger tax offset in the first year.

The above examples are scenarios only, but they do demonstrate the value in analysing your options when planning to buy a new car. Don't base your decision solely on the claims of financing companies around tax benefits.

## Get advice that suits your situation

This factsheet is a guide only and does not represent financial or tax advice. The team at Doctors Wealth Management can review your situation and recommend a solution for your individual circumstances.

You can find additional resources and information about Doctors Wealth Management at [avant.org.au/doctorswealthmanagement](http://avant.org.au/doctorswealthmanagement) or call 1800 128 268.

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