



When to Upgrade Your Business Vehicles

Having dependable business vehicles to provide a consistent and reliable service to customers is paramount in determining when you should upgrade or renew your vehicles.

There is no one golden rule that applies to business owners, as individual attributes and a vehicle's purpose of use will play a role in your decision.

Here are some of the considerations that may assist you in determining when it is the best time to upgrade or renew your business vehicles.

Operating costs

It is commonly known that as a vehicle ages, its components become subject to fair wear and tear and so the cost of operating and running that vehicle increases over time. How these costs increase over time will vary between vehicles, however there is likely to become a time when the cost of replacing the vehicle with a newer one represents better value than maintaining the existing vehicle.

It is also worth considering that a new vehicle is also likely to feature additional technologies that reduce operating costs, including fuel efficiency.

This does not hold true for all vehicles though. In many instances reconditioning heavy vehicles can also result in reducing operating costs.

Value depreciation

There are many factors that determine how quickly a vehicle's value reduces in the market – how many kilometres it has been driven, its fitted options, its care and scheduled maintenance, if it is generic in nature and able to be used across a range of businesses or have a single use, the release of a new model plus many more considerations.

Generally, when a new vehicle leaves the show room floor it loses about 10% of its value and a further 10% by the end of the first year¹. The declines in value thereafter will be determined by the previously mentioned considerations.

It is likely that there will be a point where the value of the vehicle diminishes more quickly and it makes more sense to upgrade the vehicle before this occurs.

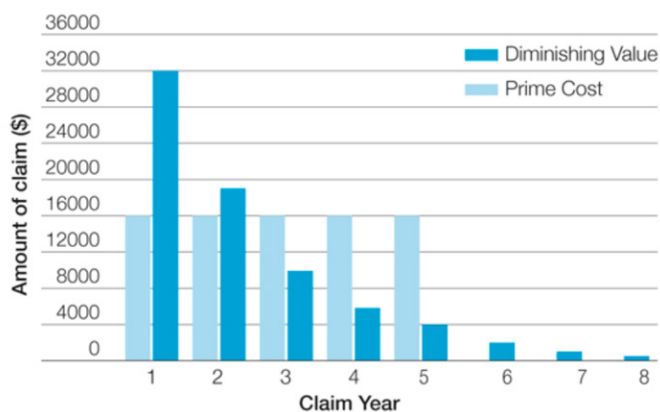
Tax depreciation

For tax purposes, the cost of the vehicle can be expense depreciated over its useful life. There are two allowable ways – the prime cost method and diminishing value method.

The prime cost method assumes the value of depreciation is decreased uniformly over its effective life while the diminishing value method assumes the value decreases more in the early years².

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If you have chosen the diminishing value method, after the initial years of ownership the majority of the vehicle's value will have already been deducted and the amount of deductions in future years will be significantly reduced.

Therefore the cost of a new vehicle could in part be offset by the additional deductions associated with the purchase of this new vehicle.

Financing

Many business owners choose to finance the purchase of their vehicles to reduce utilising capital that could be used elsewhere within their business.

As a result, the term (length) of the financing arrangement might also influence the timing of a vehicle's upgrade. At the end of the initial term some owners might choose to re-finance their existing vehicle or alternatively upgrade to a new vehicle with new financing terms. Either arrangement is likely to avoid contributing capital towards the vehicle capital costs.

You know your business better than anyone else and accordingly are best positioned to understand the frequency at which you would like to upgrade, recondition or add to your vehicle fleet.

We've put together a few noteworthy considerations in 'Loan or Lease? Financing Your New Car' to assist you in taking stock of your finances.

A finance specialist can also assess your circumstances and determine the most appropriate financing arrangement for a loan.

Sources

- <https://www.motorama.com.au/blog/buyer-advice/what-you-need-to-know-about-car-depreciation/>
- [https://www.ato.gov.au/business/depreciation-and-capital-expenses-and-allowances/general-depreciation-rules--capital-allowances/prime-cost-\(straight-line\)-and-diminishing-value-methods/#:~:text=The%20prime%20cost%20method%20assumes,years%20of%20its%20effective%20life.](https://www.ato.gov.au/business/depreciation-and-capital-expenses-and-allowances/general-depreciation-rules--capital-allowances/prime-cost-(straight-line)-and-diminishing-value-methods/#:~:text=The%20prime%20cost%20method%20assumes,years%20of%20its%20effective%20life.)

Remember to contact us to read our topic sheet **'Loan or Lease? Financing Your New Car'**.

