

Chattel Mortgage vs Lease vs Hire Purchase (CHP) Summary

Choosing between a chattel mortgage, lease, or hire purchase will depend on the type of business you operate, your financial circumstances (such as whether you need access to cash flow), your tax position (for chattel mortgage GST benefits) and the type of the asset you wish to purchase.

You'll also want to consider:

- How much your business will pay on finance in terms of interest and fees
- If you will require ownership of the asset
- If you need to upgrade the asset during the term of your finance agreement
- The amount of GST or tax your business can claim
- What you would like to happen to the equipment at the end of the finance term

Comparing chattel mortgage vs lease vs hire purchase

A chattel mortgage, finance or operating lease, and commercial hire purchase (CHP) are all forms of equipment finance available to businesses in Australia.

Each type of equipment finance offers different levels of asset ownership and business tax benefits. For example, there are chattel mortgage GST benefits, and business tax deductions on lease payments.

If you want to compare a chattel mortgage with a lease and commercial hire purchase, the first consideration is what kind of asset or assets you want to acquire for your business. You can finance vehicles, equipment, or machinery for a business through these types of commercial finance but understanding how they work will help you decide which will benefit you and your business the most.

Chattel Mortgage Advantages

A chattel mortgage gives a business full ownership of the assets funded by a lender. Generally it will be competitive as the assets you purchase will always act as security on the loan itself. A business can also claim the initial GST amount of the asset's purchase price when using a chattel mortgage.

Chattel Mortgage GST Benefits

Once a chattel mortgage is established through a lender, a business can claim the GST on the initial purchase price of the vehicle as an input tax credit on its next Business Activity Statement (BAS). To do so, your business will need to be registered for GST on a cash basis — i.e. your business records income and expenses when they occur.

Types of Lease available to Australian businesses:

There are two main types of business lease in Australia: a finance lease, and an operating lease. To decide which type of lease may best suit your business needs, it's important to understand the distinctions between the two and what they are commonly used for:

1. Finance Lease — A mid-to-long-term lease used for high-value purchases — such as medical equipment, and your business will take on both the risks and benefits of owning the asset.
2. Operating Lease — A short-to-mid-term lease used for assets which may become quickly obsolete — such as computers and IT equipment — and the lender will take on both the risks and benefits of ownership.

Finance Lease Advantages

The main advantage of a finance lease is low interest rates in comparison to other types of equipment finance. Your business will have both the use of business equipment and the benefits of ownership, while the lender will have actual ownership of the asset, which means there is very low risk to the lender. You may also be able to claim tax on your finance lease payments.

Operating Lease Advantages

The main benefit of an operating lease is that your business can commonly upgrade the assets purchased within the lease period. This is highly beneficial for businesses purchasing IT equipment, as these types of assets often become obsolete within a few years. Your business can also claim tax on your rental payments.

Commercial Hire Purchase (CHP) Advantages

The main benefit of a commercial hire purchase is that your business will own the asset at the end of your agreement. Your business will benefit from not needing to purchase the asset outright, which frees up cash flow on medium-value assets such as office furniture or power tools. For this reason, hospitality businesses often use hire purchase agreements to finance commercial kitchen equipment.

Chattel Mortgage vs Lease vs Commercial Hire Purchase comparison

Type of finance	Common Use	Asset Value	Asset Lifespan	Asset Ownership
Chattel Mortgage	Vehicle Machinery	High	Long term	Full ownership
Finance Lease	Large machinery – medical equipment	High	Long term	Ownership benefits
Operating Lease	IT equipment	Low	Short term	Part ownership
Commercial Hire Purchase	Tools, equipment, vehicles	Medium	Medium term	No

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