Lease or buy? Tips for financing your new vehicle

We live in a world of unprecedented choice. So automobile manufacturers invest a lot of money and brain capital trying to predict what drivers will want in their next, new vehicle – from safety features and fuel economy to the colour of the upholstery.

Like so many other things about automobiles, there are options on how to pay for them. Choosing the right one can mean extra money in your pocket, so evaluating different financing choices deserves serious consideration.

Chartered Accountant Brent Smith is National Manager, Sales Operations, with BMW Group Canada in Richmond Hill. “Today, automotive salespeople are trained to help customers think through different financing options,” he says. “Buyers can pick the vehicle they want and get help calculating different leasing and purchasing scenarios.”

Here are Brent’s tips for examining all the payment options before you sign on the dotted line and take that new car, truck or SUV home.

Understand how leasing works – A lease is a financial contract between you and the leasing company. Usually, that company is an entity related to the manufacturer – for example, leasing and financing BMW products are offered through BMW Group Financial Services. Third-party leasing companies exist as well. The lease agreement, which provides you with limited use of the vehicle, is in effect for a specific period of time. The most popular choice, Brent says, is around three years. During that time, you are responsible for meeting specific obligations concerning the vehicle: its maintenance, use and payment, and insurance coverage.

Be prepared for a credit check – Whether you lease or finance a vehicle has no bearing on how a financer will evaluate your credit-worthiness, Brent says. Either way, you’ll have to demonstrate your ability to pay.

Leasing can allow you to drive “newer” more frequently – In certain professions, like sales or real estate, it can be important to drive a late-model vehicle. Usually, lease payments are less expensive than loan payments to purchase a new car, because they are based on the (relatively) short period for which you are keeping the vehicle.

Leasing can make sense for “working” vehicles – For many reasons, companies or entrepreneurs may not want vehicles to be part of their asset mix or to have to determine their value – either when the vehicle is new or as it ages. For tax purposes, leasing costs are usually tax-deductible for individuals to the extent the vehicle is used for work. If the leased car is provided for you by your employer, there is usually a certain part of the cost that is assessed as being for personal use, and will likely be considered a taxable benefit.

With leasing comes responsibility – While the vehicle is in your possession, you are responsible for regular maintenance and upkeep. You must carry insurance, both comprehensive and collision.

Returning a leased vehicle involves more than dropping off the keys –Vehicles turned-in at the end of a lease are inspected, Brent advises. While some allowances are made for wear-and-tear, any excesses (for example, unrepaired collision damage) will affect their value when sold, so lessees are responsible for any repairs needed to bring their returned vehicles up to snuff, including new tires.

High-mileage drivers should consider purchasing – The mileage you anticipate driving will be factored into the lease agreement and price, so you will be charged for anything over. Drivers whose mileage is “heavy-duty” may save by buying their vehicles.

If you plan to keep it, plan to buy it – Those who plan to use a vehicle for a long time may be better advised to finance its purchase, Brent says. In the long haul, it will probably be cheaper. Similarly, a vehicle that’s intended to be customized is probably not a good candidate for a lease.

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