Hire Purchase – ATO Overview

- Hire Purchase is an agreement where an asset is hired with an option to purchase.
- Ownership transfers after the final payment.
- ATO treats hire purchase as a purchase for tax purposes.

Key Features (ATO Treatment)

- • Asset is recognised by the purchaser
- • Liability recorded for outstanding balance
- • Interest is deductible
- • Depreciation can be claimed

Accounting Treatment

- At commencement:
  - Record asset at cash price
  - Record liability for same amount

- During term:
  - Split instalments into principal and interest

Example – Hire Purchase

- Asset cost (cash price): $50,000
- Hire purchase term: 3 years
- Interest rate: 10% p.a.
- Annual instalment: $20,000

Hire Purchase Schedule (Example)

- Year 1:
- Opening Balance: $50,000
- Interest (10%): $5,000
- Instalment: $20,000
- Closing Balance: $35,000

- Year 2:
- Opening Balance: $35,000
- Interest: $3,500

Tax Treatment – ATO

- • Interest portion is deductible
- • Depreciation claimed by hirer
- • GST credit can be claimed upfront (if eligible)
- • Principal portion is not deductible

Conclusion

- Hire Purchase is treated as ownership for tax.
- Proper split of principal and interest is critical.
- Maintain schedule for compliance and audit.