ASM MONEY
Renewable Energy Finance

Is your finance choice eating up your savings in power?

A well designed finance solution for a renewable energy project should find you paying less per month than you are now for energy – and for nothing down! Even more important, if you are a tax paying organisation, you could pay significantly less using finance than cash.

What is so special about renewable energy?

Energy is the lifeblood of your organisation. Moving to a renewable energy source has the capability to fundamentally change the cost structure of your business and perception of your business in the eyes of your customers. It is a long term investment requiring the assurance of fixed rate funding, removing the risk of owning obsolete equipment and managing complex tax and rebate outcomes.

Traditional finance options are great for traditional purchases like cars and real estate. When it comes to renewable energy your traditional financier or broker may not take into account government rebates, asset specific tax rulings, engineering requirements and other complexities.

ASM Money, being specialists in renewable energy finance, work with our financiers to provide you with the best finance solution for your business.

What are the most common finance options to consider?

Generally speaking, asset finance options for renewable energy include the Operating Lease (rental), Cash and Chattel Mortgage. Each is suited to different commercial circumstances, so when considering your options, you may want to talk to your accountant or tax advisor. Below is an introduction to these main types of asset finance.

Chattel Mortgage / Bank Loan

The Chattel Mortgage is a popular finance solution where you own the asset from the outset and your loan agreement is secured by a mortgage over the asset in much the same way as your home mortgage.

Advantages	Disadvantage
Ownership	Payments are not tax deductible (only interest and depreciation)
GST on asset purchase claimed in next BAS statement	Asset and borrowings appear on the balance sheet reducing capacity to borrow
	Payments are based on full invoice price including GST

This is generally the most expensive way for a tax paying organisation to finance a renewable energy project. Using this finance solution four things happen;

1. You lose the tax deduction of your current electricity bill (potentially increasing your company tax)
2. Your repayments, replacing electricity costs, are not tax deductible
3. Only interest paid and depreciation (5%) remain as a tax deduction
4. Loan liability is added to your balance sheet.

The main organisations who use the chattel mortgage for renewable energy projects tend to be 'not for profit' and community organisations as they can't benefit from tax breaks.

Cash

Sales people will often push the idea of paying cash for a renewable energy project to get a speedy sales outcome. This may be OK for rapidly depreciating assets, however, If you are a tax paying business this is definitely not the ideal solution for renewable energy.

Advantages	Disadvantage
Ownership	Cash tied up in attempt to eliminate operating expense leading to reduced cash flow flexibility
GST on asset purchase claimed in next BAS statement	Lose tax deductions of electricity potentially increasing company tax

This is generally the second most expensive way for a tax paying organisation to finance a renewable energy project. Using this finance solution three things happen;

1. You eliminate valuable cash resources from your business reducing flexibility
2. You lose the tax deduction of your current electricity bill (potentially increasing your company tax)
3. Only the depreciation (5%) is a tax deduction

The main organisations who benefit from using cash are where cash has been donated, fund raised or who have received a grant.

Operating Lease / Rental

An operating lease, often called a rental, is a contract that allows for your use of an asset, but does not convey to you rights of ownership of the asset. An operating lease represents an off-balance sheet financing of assets, where a leased asset and associated liabilities of future rent payments are not included on the balance sheet of a company (subject to changes in accounting standards being introduced).

Advantages	Disadvantage
100% tax deductible payments in the same way electricity payments are treated	No ownership
GST on each payment claimable on BAS statement	Transfer of ownership at the end of the lease can be uncertain
Payments are based on ex-GST invoice price so are typically lower	

This is generally the most cost effective way, including cash, for a tax paying organisation to finance a renewable energy project. Using this finance solution two things happen;

1. You replace one tax deductible operating cost (electricity) for a smaller tax deductible operating cost (operating lease payment)
2. There is usually no upfront payment

The main organisations who benefit from operating leases or rental are organisations who pay company tax or organisations not allowed to borrow money or pay interest.

How can I calculate the differences for my organisation?

ASM Money developed a cash flow modelling tool specifically for renewable energy finance. If it was not included with this article simply email admin@asmmoney.com.au and request the cash flow tool and we will forward it to you.

This tool requires just three things;

1. The estimated ex-GST price of your renewable energy project
2. The term of the finance
3. Your company tax rate

Once entered the spreadsheet will automatically calculate the cash-flow of your project for the term of the finance.

Examples

Note: *these are finance calculations only and do NOT take into account your significant saving in electricity*

A $40,000 project over 48 months should result in the following cash-flow for a tax paying organisation

	Operating Lease	Chattel Mortgage	Bank Loan	Cash
Cash over 48 months	$33,752	$47,796	$43,161	$37,818

A $150,000 project over 84 months should result in the following cash-flow for a tax paying organisation

	Operating Lease	Chattel Mortgage	Bank Loan	Cash
Cash over 84 months	$142,250	$202,318	$167,076	$135,682

Even over 84 months the cost of an operating lease is only marginally higher than cash

A poorly designed finance solution can quickly eat up savings you make on energy reduction. Call ASM Money today to talk with one of our finance experts about the best option for your organisation.

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