

Man dearly loves his car but how does he pay for it

It has been said that with spring come thoughts of love and one of man's strongest love affairs is with his car.

All of the car dealers are bustling with prospective buyers — the gleam in their eyes no less brilliant than the spring sunshine reflecting off carefully polished new models.

Once the final proud choice is made prices must be finalized. How do you know if you should buy, borrow, or lease? Some die-hards always stick to one method and swear that it's the best. This article will give some pointers to help you decide how you should handle your next car purchase.

First we should define terms. By buying I mean simply using cash that you already own. Borrowing means using cash that somebody else owns and then paying them back with equal monthly installments over a set period of time. Of course you pay principal plus interest.

Leasing means paying a fixed monthly fee for the use of the car over a set period of time. A lease usually also has an option to buy the car at a specific price at the end of the lease period.

One must remember that in buying a car there are many interacting factors. Emotions may swing you one way while the numbers may pull you another. Try, therefore, to view the following as part of the interaction rather than the definitive answer.

Advantages of buying

When you buy you have pride of ownership. You also invest money that might have been attracting tax into something that won't attract ongoing tax.

Buying allows you better future cashflow as no monthly payments are required. It also gives you trade-in value against a future car which will help to reduce future costs. No matter when you want to you can trade cars with no contracts to re-negotiate. You can take a capital cost allowance (CCA or depreciation) on your taxes if the car is used for business.

Disadvantages of buying

Buying takes a large amount of cash up front that might have been useful elsewhere. For example, if you pay cash you may later have more difficulty borrowing for some other reason since used cars don't make good loan security, while banks and trust companies are quite happy to take only the new car as security for a new car loan. Buying also takes away from your ability to invest elsewhere to possibly earn high returns.

Advantages of borrowing

Borrowing lets you buy a more

Wise Money

John Near



expensive car with the ability to pay for it over time. It gives you a known non-varying monthly payment for the term of the loan. It is a method of forced savings in that since you pay more than a lease you own the car at the end of the period.

Loans can fix your maximum interest charge, but most can be re-negotiated at a lower rate if interest rates fall significantly after you borrow and buy. Interest charges and CCA are deductible to the extent that the car is used for business purposes.

Disadvantages of borrowing

The car may depreciate faster than you loan balance declines. For example, on a four-year loan you may owe more after the first year of payments than the car can be sold for. If you do sell it in that situation, you will have no car but still owe the lender the balance of the loan. It should also be remembered that since you are paying loan interest that the total cost of the car may be more than paying cash. I say 'may be more' because it depends on interest rates, your opportunity cost (what interest rate you can invest money for) taxes and possible business usage.

Advantages of leasing

Leasing requires the lowest cash flow and, therefore, allows you to buy a car with more options suited to your needs. Leasing takes away worries about future depreciation rates as you usually

have an option to buy the car from the dealer at the end of the lease for a predetermined price.

If you car has a low resale you can give it back to the dealer, but if it has a high resale value you can buy it according to the terms of your lease for less than the current market value.

Buy back price and the possible future popularity of your model become an important part of the equation. Leasing also allows the full deduction of lease payments to the extent of business usage of the car and can result in some excellent tax savings.

Disadvantages of leasing

With leasing you never own the vehicle and that can bother some people. At the end of the lease there is no trade-in value and a new car at the new prices could create some cash flow problems. Leases can be broken but there can be charges involved, and so you may end up keeping a car that you are not really thrilled with to save the penalties. If interest rates fall significantly after you start the lease then you usually can't renegotiate the terms of the lease in the same way you can with an open car loan. (Lease payments are based on current interest rates at the time of purchase.)

What's the answer?

From the above you can see that there is no straight answer. Let me finish with a numerical example.

Assumptions

1. total cost 15,000.
2. purchaser is in a 40 per cent marginal tax bracket.
3. car is used for business 75 per cent of the time.
4. purchaser can invest money at net 10 per cent interest.
5. a 48-month loan or lease is taken.

	BUY	BORROW	LEASE
Present value cost	\$15,000	\$16,147	\$16,438
Taxes saved by deducting depreciation	\$2,549	\$2,549	\$0
Taxes saved by deducting interest	\$0	\$1,438	\$0
Taxes saved by deducting lease	\$0	\$0	\$4,856
Total net cost in present value terms	\$12,451	\$12,160	\$11,582

These only apply if car is used for business.

The results are very close. Making a better deal on one method of purchase or a change in the buy-back price on the lease could change the rankings. You should consider what type of arrangement makes you most comfortable and then discuss it with your accountant if it involves a business vehicle. Finally find a knowledgeable and helpful dealer, and go get the car of your dreams.

EDITOR'S NOTE: John Near is a resident of Markham and President of John Near Annuity & Insurance Agency Limited, licenced through Mutual Life of Canada in Richmond Hill.

Olivetti announces major deal

Olivetti Canada Limited has announced that it has been awarded a contract to supply the Royal Canadian Mounted Police with 2,000 M24 Personal Computers.

The machines will be used as communicating terminals between RCMP offices across the country.

Olivetti Personal Computers are also at work at several other Federal government departments. Other departments using the M24 include Supply and Services, Revenue Canada, the Department of Correctional Services, Parks Canada and Environment Canada.

The M24 is the flagship of Olivetti's line of Personal Computers and office automation systems.

Olivetti is one of the major suppliers of Personal Computers in Canada. It's Canadian head office is on Steeles Ave. in Markham.

The Planning Act Town of Markham

Take notice that application to amend the zoning order filed as Ontario Regulation 104/72 has been received by the Minister of Municipal Affairs. The application is:

Applicant: George and Edna Clarke
 File No: 19/20/002/86002
 Proposal: Lot Severance to permit the development of a single family dwelling on lands described as Part Lot 29, Conc. 8, Town of Markham.

All submissions in support of, or in opposition to, the application(s) described above, and received by the Ministry of Municipal Affairs, 14th Floor, 777 Bay Street, Toronto, Ontario M5G 2E5, on or before the 24th day of April, 1986, will be fully considered before a final decision is made. Please refer to the file number indicated above.

In addition, under Section 46(10) of the Planning Act 1983, any interested person may request a hearing by the Ontario Municipal Board on an application for amendment to a zoning order.

Ministry of Municipal Affairs
 Ontario, Bernard Grandmaitre
 Minister of Municipal Affairs

MARKHAM SOFTBALL ASSOCIATION 1986 REP. TEAM CONTACTS

MITE BOYS	BORN 76-77	KEN BELL	294-3376
SQUIRT BOYS	BORN 74-75	DAVE PHILLIPS	294-6929
P.W. BOYS	BORN 72-73	PAUL SHEPPARD	294-0847
BANT. BOYS	BORN 70-71	FRED CRAWFORD	294-5361
JR. BOYS	BORN 65-66	BOB ABBOT	294-2480
SQUIRT GIRLS	BORN 74-75	TED TAYLOR	294-3241
BANT. GIRLS	BORN 70-71	TED TAYLOR	294-3241

MARKHAM TENNIS CLUB OPEN REGISTRATION

Saturday April 12th
 Markham Community Centre, Hwy. 7 & 48
 9 a.m. - 12 noon
 Intercounty Team Tryouts 1 p.m. - 4 p.m.

April 16, 17, 18 - Ladies Major + A
 April 21, 22, 23 - Ladies B & C
 April 28, 29, 30 - Ladies Independent
 April 26, 27 - Mixed A
 May 3, 4 - Mixed B

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