

Using Home Equity for a Tax Deductible Auto Loan

In the quest for the best deal on a new car, many consumers are striving for the tax savings of deductible auto loans. In fact, a national survey of credit union members recently revealed more than one in five members (22%) with home equity credit lines use the funds to buy vehicles. Home equity loans have become popular because the interest payments may qualify for an income tax deduction.

But do these tax savings mean real savings? Experts agree the answer is maybe — but not always.

Financing a vehicle with a home equity loan has other advantages besides the tax savings. You can probably finance over a longer period of time. And you can sometimes get a better interest rate too.

Here are some tips to help you determine which direction is right for you.

Consider other costs. When you finance a home equity loan, you can expect to incur appraisal, credit check and possibly title-search costs. You may pay closing costs too.

These expenses could amount to hundreds of dollars. If you save

only \$1000 over the course of the loan, will your net savings be worth it?

Keep the term short. Say you have a four-year secured auto loan of \$15,000 at an 8.25% rate. You pay \$369.30 a month for a total interest expense of \$2,726.22. By comparison, the same amount over 15 years would cost only \$146.09 a month — but the total finance charge would be \$11,294.21!

However, with an equity auto loan you will realize a tax savings on interest paid. For example, if you are in a 28% tax bracket, your typical tax savings will be 28% of the finance charges paid each year.

If you're taking out a ten-year loan to finance a new car, ask yourself whether the car will even last that long. Let's face it, it's not in your best interest to continue owing on something that no longer has value. In six years you may find yourself needing a new car, with only half of your loan paid and valuable equity in your home tied up.

Consult your tax advisor and turn to your credit union too. Your credit union can show you all your financing options and find the best way to finance your car — so it fits your budget *and* meets your needs.