

## PRACTICE AND CLIENT MANAGEMENT

# Buying a car is tricky – here's how financial planners coach clients

By [Tobias Salinger](#) September 12, 2024, 3:25 p.m. EDT 5 Min Read



When clients of financial planner Fahmin Fardous tell her they want to buy a car, she asks them to send her a list of the vehicles they may be considering. Then she helps them find a balance.

"The most common question is 'need' versus 'want.' A lot of times the 'need' is a little too low and the 'want' is a little too high to support a happy medium," said Fardous, a planner with Philadelphia-based [Zenith Wealth Partners](#). "This is what you need. This is what you want. Let's find something in the middle. And I've seen people resonate with that."

Whether to purchase or lease and [other questions involved with cars](#) represent some of the most [frequently discussed](#) issues among financial advisors [and their clients](#), according to Fardous and Kashif Ahmed, founder of Bedford, Massachusetts-based [American Private Wealth](#). The tax deduction [for business usage](#) of automobiles [by self-employed clients](#), strategies for boosting customers' negotiating power, key tools for deciding what make and model will be best, an understanding of the fact that cars are a depreciating asset and even the topic of how advisors may send a message with their own vehicular decisions come up a lot.

Ahmed drives a 2009 Toyota Highlander with more than 100,000 miles on its dial, he said, noting how a client who owns an auto dealership told him, "You know, you should get a new car now," the last time he took it for an oil change.

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"It still runs just like the day I drove it off the lot, so there's no reason for me to change this car. They're going to bury me in this thing," Ahmed said. "It's very important for you to buy the right car."

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## Buy vs. lease

Smaller, more affordable cars [are gaining popularity](#) amid high interest rates and inflation that hiked up borrowing expenses and the cost of gasoline.

As advisors and clients weigh their cash flow and budgeting against upfront and monthly payments, they should keep in mind that newly bought cars' value depreciates by an average of 10% upon purchase, with "subsequent mileage contributing further to the reduction" over time, [according to a guide](#) published by Seattle-based registered investment advisory firm Brighton Jones last year.

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work harder for you elsewhere, and you don't risk off-the-lot depreciation. The truth is that, for most people, leasing makes less financial sense than buying. But for some, leasing may make a great deal of sense when it comes to personal preference and flexibility."

For clients, the "worst decision" is to get into one lease and then start another on a different vehicle without finishing the first, Fardous said. That would mean "you're at their mercy" when it comes to monthly payments and other factors, she noted. Those unable to secure financing at a rate that makes purchasing the car feasible may consider a lease at a term of three to five years that enables the client to buy the car at a fixed level at the end of the term — as long as they abide by mileage limitations and other restrictions.

"It's kind of like you're throwing money down the drain, but there are some people who want a new car every three years," Fardous said. "You know at the end of three years, I need to come up with \$13,000 in order to buy that car outright."

Any type of financing beyond five years is "just stupidity of the highest order" because of the depreciation, according to Ahmed. In general, leasing becomes "far more expensive in the long term, even though the payments seem to be lower," he said.

"What you really paid for is the depreciation of the car, and yet you have to turn it back in," Ahmed said. "Most people lease because it allows them to get into a fancier car that they might not otherwise be able to afford."

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## Tax strategies

For clients more concerned about reducing their environmental impact than driving the coolest car, electric vehicles whose technology is still under development likely won't last them 10 or 15 years at this point, he noted.

Those seeking to tap [into the tax credit](#) of up to \$7,500 [for electric cars](#) can sometimes forget that they "are getting a reduction in your taxes, but you aren't getting a physical check," Fardous said.

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rule out the use of a [Section 179 deduction](#) for depreciating business equipment that is open to car owners whose vehicles weigh at least 6,000 pounds. And those cars can run up to \$65,000 to \$75,000, Fardous noted.

"If you don't truly need it for your business, I wouldn't advise you to get it," she said. "You have to use that vehicle for business. If you work at home and you never go anywhere, how can you justify using it for business?"

Entrepreneurs sometimes make the case for buying a luxury brand like a Mercedes with the argument that, "I'm using it for my business and I need to make a good impression," but, "That can work both ways," Ahmed said.

"If you're advocating frugality and you show up in a brand new Tesla, someone might say, 'Well, you don't really practice what you preach,'" he added. "They will actually look down on you."

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## Negotiating power

Another factor in clients' decisions about their car comes down to their research about all the potential options, he and Fardous said.

"You have to shop around. You cannot just go to one dealer," she said. "You have to go to about three or four and see who's giving you the best deal so you have a bit more negotiating power. Now they're trying to win your business because they know you've shopped around."

Before going into any dealership, clients ought to take a clear-eyed look at how the car will affect their monthly cash flow for the near and long terms, Ahmed said.

"If you choose to finance it, you are paying interest every single month for something that's going down in value, so just keep that in mind," he said. "You should have done your budgeting before."

And those dealerships have their own budgets that they're operating against as well, according to Fardous, who bought her current car last December and said that the final weeks of quarters or years make especially good times for buyers.

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