

Vehicle Financing 101



So, you found the perfect vehicle and the price looks right. But, if you are borrowing money to pay for it, have you included the cost of financing? For example, if you are buying a \$50,000 vehicle at 5 percent annual interest with a payback period of 5 years, you will pay a total of \$6,378.79 in interest on the vehicle (with a \$939.65 monthly payment). Let's go over a quick breakdown of the different parts of a vehicle's price:

- **MSRP** is the manufacturer's suggested retail price, often referred to as the list price or sticker price.
 - **Options** are extra features added to the vehicle, such as leather seating or a sunroof.
 - **Destination fee** is the cost of having the vehicle delivered to the dealer.
 - **Tax** is not listed on the window sticker, but it is important to keep in mind. In Mississippi, you pay a 5 percent tax on new vehicles.
 - **Financing:** Unless you pay for the vehicle in full at purchase, part of your monthly payment will be a finance charge to service the loan. A finance manager or F&I (finance and insurance) manager is required to provide you with a document outlining the cost of financing.
 - **Optional add-ons** may include extra coverage like an extended warranty or GAP (guaranteed asset protection) coverage.
 - **Rebates/Incentives:** Vehicle manufacturers as well as the federal government may offer rebates or incentives that change throughout the year. For instance, when a new model comes out, dealers will typically offer incentives to move the older inventory off the lot, while the government may offer a rebate for buying an electric car. An incentive comes off the vehicle's price, while a rebate will be claimed when you file your next tax return.
- **Tag:** Once you purchase the vehicle, you will need to take the window sticker to the county tax office to get your tag. The cost of the tag is based on the vehicle's MSRP, not what you paid for the vehicle, and can sometimes lead to sticker shock. Motor vehicle ad valorem tax is based on the assessed value of the vehicle multiplied by the millage rate set by the local county government. Assessed value has been established as 30 percent of the MSRP, plus a reduction of a certain percentage for depreciation over 10 years. If you are going from a vehicle that is a few years old to a brand new one, the cost of the tag will likely be much higher.

It's important to take every cost into consideration and run your own calculations to find the true cost of the vehicle you are purchasing. Understand the numbers before visiting a dealer by using the financial calculator here:

<https://extension.msstate.edu/publications/vehicle-financing-101>

Once the file is opened, complete the information in the light blue cells. You can use the file to calculate total price or monthly payment. Use the advertised cost of the vehicle plus 5 percent for taxes. This will not give an exact payment and/or total cost, but it will give you a much clearer picture of what to expect.

Reference

<https://www.dor.ms.gov/TagsTitles/Pages/MotorVehicle-AdValorem.aspx>

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