ABOUT THE BVRLA

The British Vehicle Rental and Leasing Association is the trade body for companies engaged in the leasing and rental of cars and commercial vehicles.

Its members provide short-term self-drive rental, leasing hire and fleet management services to corporate users and consumers. The sector employs an estimated 46,000 people and supports a further 200,000 jobs across the automotive industry in the UK. BVRLA members operate a combined fleet of around 2.5 million cars, vans and trucks, buying nearly half of all new vehicles sold in the UK. In doing so, they spend in excess of £16bn each year on vehicles and around a further £4bn on support and ancillary services.

Through its 500+ member companies and their customers, the BVRLA represents the interests of more than two million business car drivers and the millions of people who use a rental vehicle each year.

It lobbies at the heart of government in the UK and EU to ensure that regulation and legislation affecting its members is fair and doesn’t stifle competition. The BVRLA also works with public sector agencies, industry associations and business influencers on key road transport, taxation and finance-related issues.

The association regulates the industry through a programme of quality assurance inspections and a mandatory code of conduct.

www.bvrla.co.uk

The information in this guide reflects the position in March 2013
Foreword

Provision of cash or company cars for business purposes is typically the second or third most expensive payroll item after salary and pensions for employers. Management of the cash or car policy touches many functions of a business. Finance, tax, HR, procurement and fleet all have a crucial role to play in ensuring that their fleet policy remains cost-effective whilst being attractive to employees and manageable for the business.

The design and ongoing maintenance of the fleet policy is a virtuous circle which must be carefully considered as the needs of the business evolve. In designing the policy there may be a number of strategic aims set by different parts of the business. Unfortunately, these aims may pull in different directions and may enhance some elements whilst negatively impacting others. Fleet policy involves constant monitoring of the balance of these aims to ensure that the best result is achieved for evolving business needs.

In addition, whilst the underlying business commodity remains the same, the fleet management industry continues to develop new service offerings, with innovative ways of providing company cars becoming increasingly common as competition for provision of the vehicle intensifies.

In designing a fleet policy, whilst it is important to consider the tax and financial implications of the range of procurement methods available, it is also critical that the commercial requirements lead these decisions. Consideration must be given to overall business model and strategy – for example, is the ethos of the business to lease assets, or outsource to third parties where possible? It is only when these macro decisions have been taken that the more detailed design work should begin.

It is at this point that tax and finance become a critical (but not isolated) part of the design process – both from the employer and employee perspectives. This will include vehicle funding options, fleet management considerations, car allowance provision, etc.
The Deloitte Car Consulting team has extensive experience as independent advisers, working with both employers and the fleet management industry in the design, communication and technological support of cost-effective fleet policies.

Our consultancy solutions are underpinned by tax-based technology for both the design and operation of fleet policies on a true “whole life cost” basis. We are delighted to support the BVRLA on this guide, which we hope will help those in the industry to improve knowledge and understanding of the variety of decisions to be made and the options available in the complex and critical area of fleet design.

Nathan Male
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It is important to note that this publication is not intended as a definitive tax or accounting guide, nor a substitute for professional tax or accounting advice. Leases herein are assumed not to be long funding leases for Corporation Tax purposes, deferred purchase arrangements assume the contract meets the criteria for fleet operators to claim capital allowances and where vehicles are purchased outright with borrowed funds, interest expense may be Corporation Tax deductible. Therefore readers should seek independent advice in respect of their particular facts and circumstances before making any decisions due to complexities involved. Any commercial views expressed within this publication, either explicit or implied, are those of the BVRLA and neither the BVRLA nor Deloitte LLP accept liability for any opinions it contains, or for any errors or omissions.
A word from our sponsor

Peugeot was founded at the height of one revolution. Now we’re in the midst of another. However, this time new technology is about cutting costs, cutting emissions and living in a better world and we’re really proud to be leading the way.

We’ve invested heavily in new technologies like our unique Diesel HYbrid4 range that keeps running costs down and miles per gallon up, now available in the 3008 Diesel HYbrid4, 508 RXH and 508 Diesel HYbrid4 Saloon.

We’re also thrilled that our enviable hatchback history continues with the brand new 208. With its sculpted, sporty exterior and range of high-performance engines (from just 87g/km of CO₂), it has been praised by the motoring press and many fleet drivers.

Iconic little hatchbacks aside, it’s also really pleasing that we have been recognised in recent years for pushing the boundaries with vehicles that are both daring and responsible. With practical vans like the Bipper, the stunning RCZ coupé and the prestigious 508, we are confident that we have fleet solutions for the next generation.

Phil Robson
Director – Fleet and Used Vehicle Operations
Peugeot Motor Company plc

www.peugeot.co.uk/business
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Introduction

Vehicles are an essential form of mobility for most companies and individuals. They can be expensive to own and operate, so it is important to select the appropriate financing method. There are a variety of these, each of which has its features and benefits depending on an organisation’s operational objectives, accounting and cash flow requirements.

This guide has been produced in association with professional services firm Deloitte LLP to help decision-makers identify the most appropriate solution for their circumstances. However, it is not a definitive tax or accounting guide, nor is it meant to be a substitute for professional advice.

In order to provide an impartial view this publication looks at the pros and cons of buying vehicles outright as well as the range of funding services offered by BVRLA members.

This guide examines the key features of selected acquisition options and explores the accounting and tax implications for the organisation using or owning the fleet. It looks at:

- Contract hire
- Sale and leaseback
- Finance lease
- Contract purchase
- Hire or lease purchase
- Outright purchase

The personal tax position of the driver does not depend on how the company has funded the vehicle, so this is discussed in a separate section of this publication.
Once committed to acquiring a vehicle fleet or changing the current method of acquisition, an organisation’s funding decision will be governed by a number of factors, including:

- Labour force flexibility
- Financing strategy
- Time value of money (or net present value)
- Cash flow
- Tax status
- VAT status
- CO₂ emissions profile of its fleet
- Attitude to risk
- Balance sheet structure
- Availability of in-house fleet management expertise

Since cars form the majority of BVRLA Members’ fleets and also the total UK corporate-owned vehicle fleet, this publication focuses on cars throughout. However, the acquisition methods described in this guide are broadly applicable to other vehicles, subject to the specific tax treatment and VAT rules for business cars which are not relevant to vans or trucks.

John Lewis
Chief executive, BVRLA
**Contract Hire**

**Dealer / Manufacturer**

- Title to car
- Delivers car

**Rentals:**
- Finance (plus VAT)
- Services (plus VAT)

**Finance**
- (only 50% VAT recoverable if any private use)

**Vehicle Excise Duty**
- (if supplied on an as-needed basis)

**Services**
- (100% VAT recoverable)
- Maintenance
- Breakdown
- Relief Vehicle

**Leasing Company**

- Registered Keeper
- Tax Owner
  - cars producing no more than 160g/km CO₂ (130g/km for cars registered from April 2013): 18% WDA
  - cars producing more than 160g/km CO₂ (130g/km for cars registered from April 2013): 8% WDA

**Fleet Operator**

- Hirer
  - rentals allowable against tax
  - (restricted for cars producing more than 160g/km CO₂ – 130g/km for cars registered from April 2013)

**Rental**
- Finance (plus VAT)
- Services (plus VAT)

**Credit risk, operating cost, residual risk, vehicle disposal and administration**

**Fixed costs and no risks of ownership**
Contract hire

The most popular type of vehicle leasing, contract hire sees a user hire a car for a set period of time and pre-determined mileage at fixed monthly rentals. There is no option for the user or hirer to purchase the vehicle and at the end of the contract it is returned to the leasing company.

The monthly rental or lease rate usually takes into account the cost of the car including vehicle registration fees, road fund licence, its period of use and agreed mileage, funding costs, and forecast residual value (the car’s estimated value at the end of the contract, taking into account depreciation, mileage and condition). This part of the monthly charge is often referred to as the ‘finance’ element of the rental.

Vehicle mileage will have a big impact on the lease rate because the number of miles a car does has major implications for both its service requirements and resale value. Underestimating mileage can reduce the monthly rental rate for the user, but it can result in them incurring excess charges at the end of the contract if they have exceeded their agreed total mileage limit.

The choice of vehicle model can also be a major factor. Two cars can have an almost identical list price, but if one has a much higher forecast residual value this will be reflected in a lower monthly rate.

The monthly rate for most contract hire agreements will also include a ‘service’ element of the rental, which can cover a range of additional services. Examples of such services include maintenance, replacement vehicles, roadside assistance, motor insurance, accident management and fuel cards. Hirers are able to choose from a menu of options to meet their individual needs and level of in-house fleet support resources.
Salary sacrifice car schemes, which are gaining in popularity, are usually based on an underlying contract hire arrangement between the leasing company and employer. Salary sacrifice is not a funding method of the car itself, but an arrangement between the employer and employee for the benefit of a company car to be provided in exchange for a reduction in gross salary.

**PROS**

Fixed cost motoring

Frees up capital

**Steady cash flow**

100% of VAT claimable where vehicle only used for business

50% of VAT claimable if private use allowed

Rentals are usually Corporation Tax deductible

Additional line of finance that may not affect banking arrangements

Eliminates most of the stresses/financial risks of vehicle ownership

**CONS**

You will need to estimate the time and mileage for your use of the vehicle

No option to purchase the vehicle
**Tax treatment of contract hire**

The Corporation Tax deductions for business car expenses are dependent on the CO₂ emissions of each vehicle. Cars are usually treated in one of two ways:

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<td><strong>Lease Rental</strong></td>
<td>100%</td>
<td>85%</td>
</tr>
<tr>
<td>What percentage of the lease rental payments can a business claim against its taxable profits?</td>
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<td></td>
</tr>
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</table>

**Note:** This tax treatment only applies to the finance element of the lease rental. The 15% restriction is permanent.

The lessee will only be able to recover 50% of the VAT incurred on the monthly rental if there is any private use of the vehicle. Some businesses that are exempt or partially exempt for VAT purposes (because they supply VAT-exempt goods or services such as insurance, finance or training) may only be able to recover a proportion of the 50% of recoverable VAT.

Where there is no private use, for example with a pool car, then 100% of the VAT can be recovered by the lessee.

The 50% block on VAT recovery is only applied to the finance element of the rental charge. It does not apply to any services rendered under a contract hire agreement, for example maintenance, for which VAT is fully recoverable, subject to normal partial exemption rules.

If not outlined by the leasing company, excess mileage charges should be split between the service charge and finance charge elements, on the same basis as the original rental fee.

In order for the lessee to reclaim VAT, it is important that the leasing company issues an appropriate VAT invoice. The BVRLA has agreed a range of sample invoice formats with HM Revenue & Customs that can be found in the *BVRLA Guide to Vehicle VAT* (members of the BVRLA can download this from the association’s website: www.bvrla.co.uk).
Accounting for contract hire
A contract hire agreement is usually accounted for as an operating lease under current accounting standards, meaning that vehicles do not appear on the lessee’s balance sheet.

The International Accounting Standards Board (IASB) and its US counterpart the FASB, are proposing a set of new lease accounting rules which would change the way leases are reported in the accounts of companies that report to International Financial Reporting Standards (IFRS). Even if these new standards are agreed in 2012, they are unlikely to come into effect before 2015/16.

Sale and leaseback
With a sale and leaseback agreement, an organisation frees the capital tied-up in its owned purchased vehicles by selling them to a leasing company and contract hiring them back for an agreed monthly fee. In doing so the organisation gains the advantage of fixed, monthly fleet budgeting and may no longer bear the financial risks associated with vehicle depreciation.

There should be no VAT on the sale to the leasing/contract hire company if the seller has allowed the cars to be used for private use, unless the sale and leaseback takes place in the same VAT period as the original purchase of the cars. The subsequent lease charges will be subject to VAT. However, the lessee would not be required to block 50% of the VAT on the charges. This is because VAT has already been blocked on the original purchase of the cars by the company.
Finance Lease

As with contract hire, a finance lease allows the lessee to hire a vehicle for a fixed monthly fee, but it also transfers substantially all of the risks and rewards of ownership of the car or van to the lessee.

Using a finance lease means that the vehicle will appear on the lessee’s balance sheet, with outstanding rentals represented as a liability.

A finance lease generally conforms to one of two standard formats – the residual value lease or the fully amortised lease.

In a residual value lease, the diminishing value of the vehicle is reflected in the monthly rental, with a final balloon payment covering the estimated residual value at the end of the contract. If the sold price is above the predetermined balloon payment then the leasing company will usually refund a percentage of the proceeds to the lessee. If the price is below the balloon payment then the lessee will be liable to pay the shortfall to the leasing company.

A fully amortised lease accounts for the full value of the vehicle over the primary lease period within the monthly payments. Under these circumstances the lessee (vehicle user) may be offered a lease on the vehicle for a secondary period at a nominal ‘peppercorn’ rental.
Tax and accounting treatment of finance leases

The tax treatment of rental payments by lessees under finance lease cars is dependent on the CO\textsubscript{2} emissions of each vehicle, with rentals payable usually treated in one of two ways:

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Note: This tax treatment only applies to the finance element of the lease rental. The 15% restriction is permanent.

Lessees can recover a maximum of only 50% of the VAT on the lease charges, where there is any private use of the car, subject to normal partial exemption rules. (See Contract Hire section for further details of charges not subject to the 50% block)
**Finance Lease**

**Leasing Company**
- **Legal Owner**
  - Tax Owner
  - cars producing no more than 160g/km CO₂ (130g/km for cars registered from April 2013): 18% WDA
  - cars producing more than 160g/km CO₂ (130g/km for cars registered from April 2013): 8% WDA

**Fleet Operator**
- **Lessee**
  - rentals allowable against tax (restricted for cars producing more than 160g/km CO₂ – 130g/km for cars registered from April 2013)

**Credit risk**

**Administration and operating risks**

**Dealer / Manufacturer**
- title to car
- delivers car

**Rentals**
- plus balloon rental (plus VAT)
**Contract Purchase**

**Leasing Company**
- **Legal Owner**
  - Final balloon payment title passes to fleet operator
  - Guaranteed re-purchase of car for agreed sum
- Credit risk, operating cost and residual risk
- Administration

**Dealer / Manufacturer**
- title to car
- delivers car

**Services** (supplied by leasing company)
- Supply, Maintenance, Relief Vehicle, Licence, Breakdown, Recovery, Disposal

**Fleet Operator**
- **User**
- **Tax Owner**
  - cars producing no more than 160g/km CO₂ (130g/km for cars registered from April 2013):
    - 18% WDA
  - cars producing more than 160g/km CO₂ (130g/km for cars registered from April 2013):
    - 8% WDA
- Instalments: services plus VAT (where applicable)

**Fixed costs and no risks of ownership if guaranteed re-purchase exercised**
Contract purchase

Contract purchase essentially sees a customer agree to purchase a vehicle via a series of monthly instalments. Ownership passes to the organisation either at the outset or the end of the contract, depending on whether a conditional sale or credit sale agreement is used.

Under a conditional sale agreement, legal title to the vehicle will pass to the customer at the end of the contract following a final balloon payment. Under a credit sale agreement, legal title usually passes at the outset.

Having gained title to the vehicle, the new owner can either keep it, sell it directly, commission their leasing company to sell it on their behalf or sell the car back to the leasing company for a sum agreed at the contract’s inception (called a ‘guaranteed buy back’ or ‘guaranteed future value’). The latter option relieves the customer of carrying the residual value risk and injects a key benefit of risk management into what is essentially a purchase arrangement.

Optional added value fleet management services can also be included with a contract purchase agreement.

**PROS**

- Fixed monthly payments
- Purchase cost may be Corporation Tax deductible through capital allowances
- Interest elements of monthly payments may be Corporation Tax deductible
- Can benefit from higher residual values

**CONS**

- At risk from lower residual values
- Outstanding instalments appear as a liability on balance sheet
- Vehicle appears on balance sheet
- Not VAT-efficient
Tax and accounting treatment of contract purchase
A lessee is usually able to claim capital allowances for vehicles under either a conditional sale or a credit sale arrangement, despite the fact that under a conditional sale, title may not pass until the final payment is made under the contract.

The capital expenditure on all business cars is treated in one of three ways for capital allowance purposes, depending on the CO\textsubscript{2} emissions of each vehicle.

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<td>Purchase Cost</td>
<td>100% in the first year (This incentive expires with cars purchased after 31 March 2015 and is not available for leased or rented cars.)</td>
<td>18% each year on a reducing balance basis with the expenditure included in the main pool</td>
<td>8% each year on a reducing balance basis with the expenditure included in the special rate pool</td>
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No VAT is imposed on the monthly instalments for qualifying purchasers (see Hire Purchase section, below). However, the supplier is required to account for VAT on the full value of the car when the contract is signed (the cost of this VAT is generally reflected in the monthly capital repayments). None of this VAT is recoverable by the customer, except in the exceptional circumstances where the car cannot be used for private purposes. VAT is also due on charges for additional services supplied by the finance company (for example, maintenance charges). This VAT can be recovered in full, subject to the normal partial exemption rules.

For ease of identifying the two types of supply for VAT purposes, customers may receive two invoices, one for the finance element of the instalment without VAT and one for separate services with VAT.
Another method of achieving vehicle ownership is hire purchase, which is also referred to as lease purchase. In this section both hire and lease purchase arrangements will be referred to as ‘hire purchase’ (HP).

Under this type of agreement the purchaser leases the vehicle from a third party with an option to purchase it at the end of the hire term. The agreement may require a three- or six-month deposit at the outset and usually terminates with a balloon payment – typically equivalent to the expected residual value of the car. Both the deposit and the balloon payment can be varied to reduce or increase the monthly repayment amount.

This type of funding appeals to companies that want to retain ownership of their vehicles, do not want to use their capital or overdraft to pay for them and want to avoid mileage restrictions. On the negative side it presents a residual value risk and requires in-house expertise and management resources.

Hire purchase agreements can be based on a fixed interest rate, thereby creating fixed monthly instalments and eliminating exposure to fluctuating interest rates.

**PROS**
- Purchase cost may be Corporation Tax deductible through capital allowances
- Interest elements of monthly payments may be Corporation Tax deductible
- Can benefit from higher residual values

**CONS**
- At risk from lower residual values
- Outstanding instalments appear as a liability on balance sheet
- Not VAT efficient
- Vehicle appears on balance sheet
- Cost of in-house management
Hire or lease purchase

Leasing Company

- **Hire Purchase**
  - Purchaser has the option to purchase for a nominal sum

- **Conditional Sale**
  - Title passes automatically to purchaser

- **Credit Sale**
  - Title passes at inception of agreement

Fleet Operator

- **Purchaser**
  - Title passes at inception of agreement

- **Tax Owner**
  - **Cars producing no more than 160g/km CO₂**
    - 18% WDA
  - **Cars producing more than 160g/km CO₂**
    - 8% WDA

Credit risk

Administration and operating risks

Dealer / Manufacturer

Instalments (VAT exempt)

title to car

delivers car

cars producing no more than 160g/km CO₂
(130g/km for cars registered from April 2013):
  - 18% WDA

cars producing more than 160g/km CO₂
(130g/km for cars registered from April 2013):
  - 8% WDA

dealer / manufacturer

tax owner

paid for car

administration and operating risks
Tax and accounting treatment of hire purchase

A hire purchase arrangement must be accounted for as a finance lease in order for the lessee/purchaser to be entitled to claim capital allowances for a vehicle. Other requirements include the need for capital expenditure to be incurred, eg for rentals to include a capital element which may be indicated by a nominal value purchase option.

The capital expenditure on all business cars is treated in one of three ways for capital allowance purposes, depending on the CO\textsubscript{2} emissions of each vehicle.

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With hire purchase the user should be able to deduct the ‘interest’ element of each monthly instalment in full against taxable profits.

For VAT purposes, hire purchase is treated as a supply of goods provided that the agreement clearly states that ownership of the vehicle will pass to the customer at some time in the future. This means that VAT is due on day one on the full value of the supply.

The VAT payable on the supply of goods is calculated according to the total amount payable over the term of the agreement, net of interest charges,
even though the customer may have an option not to pay all of the sums specified in the agreement.

The customer will not be able to recover VAT paid where any private use is allowed. In these instances, the hire purchase company will effectively recover the VAT paid on the purchase by including it in the monthly rental instalments before interest is added.

Customers who can recover VAT on the purchase of the car will need to obtain a tax invoice to recover the VAT at the outset of the contract. This means the VAT will not be built into the capital repayments. However, the customer will need to account for this VAT on any subsequent sale or disposal of the vehicle.

VAT on additional services (for example, maintenance) and car accessories should be recoverable subject to the normal partial exemption rules, particularly where the accessories are purchased on behalf of the customer and fitted after delivery. However, to recover the VAT, the customer must show that the installation of accessories is primarily for business use.
The purchase of vehicles, using company or borrowed funds, for ongoing use in a company’s operations, is usually regarded as an acquisition of a fixed asset for accounting purposes. As such, they would be recorded on the organisation’s balance sheet.

This funding method gives the greatest level of control in terms of what, where and how a vehicle is procured. Outright purchase also provides a potential influx of funds when vehicles are sold. However, funding a vehicle this way means tying-up capital in a rapidly depreciating asset. It uses money that could be invested elsewhere, perhaps in growing the business or reducing debts.

Outright purchase also exposes the owner to fluctuations in the car market, both for new and used vehicles. In residual value terms, this may result in an accounting profit if the sale price exceeds the net book value, but it could also produce an accounting loss if the price falls short of the net book value. Cash flow and budget forecasts are complicated by the used car market’s unpredictability and the range of disposal options open to companies owning vehicles. These include auctions, dealers, trade-ins, local paper advertisements or direct sales to employees.

The seller of a ‘qualifying car’ will also need to account for VAT out of the sales proceeds, which will partly offset the cash flow benefit of having recovered the VAT on its purchase.

**PROS**
- Purchase cost may be Corporation Tax deductible through capital allowances
- Can benefit from higher resale value

**CONS**
- At risk from lower resale values
- Any outstanding loan payments appear as a liability on balance sheet
- Ties-up capital
- Vehicle appears on balance sheet
Outright purchase

The cost of a typical company car over a three-year period / 60,000 miles:

- Depreciation: £8,145
- Interest: £2,850
- Vehicle licence: £390
- Insurance: £2,000
- Maintenance and repairs: £1,360
- Fuel: £7,800
- Breakdown assistance: £90
- Administration: £540

Total: £23,175

Assuming a net on-the-road cost of £13,575 (after discount and excluding VAT) and sale proceeds after three years of £5,430 (including VAT)
Tax treatment of outright purchase
As long as the relevant criteria are met for claiming capital allowances, the purchaser's expenditure on all business cars is treated in one of three ways, depending on the CO\(_2\) emissions of each vehicle, with diesel and petrol engine vehicles being treated the same way.

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VAT is added to the price of a new car and is not recoverable from HM Revenue and Customs unless:

- it can be proved that no private use of the car will take place
- the car is to be sold unused, or
- the car is purchased for use by a daily rental company, leasing or contract hire company, VAT-registered driving school or VAT-registered taxi firm.

New and used cars where VAT has been recovered on the purchase are known as ‘qualifying cars’. In both cases, the VAT is recoverable only where the car is used ‘primarily for a relevant purpose’ or ‘exclusively for the purposes of a business’, which would, of course, include pool cars, provided there is no private use. VAT incurred on the purchase of the average company car (where there is some private use) is not recoverable by the purchaser.

VAT on running costs, such as servicing and parts, is recoverable subject to the normal rules of partial exemption, ie fully recoverable where the owner is VAT-registered and all of its sales are taxable.
Personal Motoring Schemes

These are designed for those organisations seeking an alternative to traditional company car provision. They may also offer the option of an employee scheme for those employees who may not qualify for a company car or allowance.

Every personal motoring scheme is different. They can be tailored to the needs of individual people and may range from an off-the-shelf option to more sophisticated bespoke solutions. However, each scheme will usually fall into one of three main categories – personal contract hire, personal car plans (PCPs), or employee car ownership schemes (ECOS).

**Personal Contract Hire**

Personal contract hire is essentially the same as regular contract hire, but applies to individuals. However, as an individual, the customer will not be able to take advantage of any tax allowances or recover any VAT.

**Personal Car Plans**

Personal car plans, often known as affinity schemes, are car finance schemes for employees and sometimes their family members. They allow individual employees to drive new cars and benefit from monthly payments that can be lower than traditional finance arrangements.

The employee chooses to finance the vehicle for a contract period to suit their needs, with the supplier offering an option to guarantee the future value of the vehicle. The employee can also choose to take an optional maintenance package and roadside assistance. The scheme can be made available to all staff, regardless of whether or not the employee receives a cash allowance.
At the end of the agreement the employee has three options:

- exchange the car for a new one
- purchase the vehicle outright
- return it without further cost (subject to mileage).

By only funding the difference between the purchase price and the residual value at the end of the scheme (rather than the full value of the car) monthly costs can be greatly reduced compared to traditional car loans.

Organisations often use this type of scheme as a way of improving staff loyalty and retention.

**Employee Car Ownership Schemes (ECOS)**

These schemes can offer a wide range of finance and service options from off-the-shelf solutions to more sophisticated bespoke packages. Vehicles can be fully maintained, insured and replaced on a regular cycle, thereby helping companies comply with health and safety regulations for drivers covering business miles.

The employer can retain control of the fleet policy including buying terms, vehicle choice, replacement cycle, maintenance and insurance. There are also additional services that employees may wish to consider, including Guaranteed Asset Protection insurance (designed to cover the gap between the insurance paid out on a written-off vehicle and the outstanding finance on the vehicle), early termination insurance (ETI) and maintenance – something which a basic cash alternative package cannot provide.

ECOS can be complex to operate, but leasing companies may talk customers through the process and use their experience to recommend suitable options to match a company’s specific requirements.
As the employee owns the car there’s no company car benefit-in-kind tax. The vehicle does not appear on the company balance sheet and there are no business-related taxes payable or recoverable by the employer relating directly to vehicle ownership. However, any cash allowances paid to fund the car will be liable to employer National Insurance (NI) and employees will be liable to Income tax and NI. Vehicle and maintenance repayments are funded through a combination of tax-free business mileage reimbursements (see AMAPs, below) and top-up cash allowances.

Approved Mileage Allowance Payments (AMAPs)

Employment Tax Legislation allows reimbursements of business motoring expenses incurred by drivers using PCP, ECOS or private cars on business. These are set at a maximum of 45 pence per mile (ppm) for the first 10,000 business miles per annum and 25ppm thereafter for tax purposes. These tax-free allowances are known as approved mileage allowance payments (AMAPs). The rates quoted by HMRC are not binding upon companies, who may reimburse at whatever rate they feel is appropriate for the car being used by their employee. HM Revenue & Customs (HMRC) will treat any payments in excess of AMAPs as taxable, but employees can claim income tax relief against any resultant shortfall in their travel expenses from HMRC.

Rates for AMAPs are subject to periodic review by HMRC and the viability of some schemes may be prejudiced if rates were to be substantially changed.
Employee Benefits

Company Car Benefit-in-Kind (BIK) Tax

How it works
The company car taxation system is based on a percentage of the car’s list price graduated according to its carbon dioxide (CO₂) emissions.

Zero-emission electric cars have a 0% BIK rate, which the government has guaranteed until April 2015. For other cars, the BIK tax rate starts at 5% for those emitting 75g or less of CO₂ per kilometre, again effective until April 2015. Until April 2013, for cars emitting between 76 and 99g/km, the BIK rate is 10%, with the charge increasing in 1% steps for every additional full 5g/km over that level. There is an overriding maximum charge of 35% of the car’s list price.

Diesel engined vehicles are subject to a 3% supplement compared to their corresponding petrol counterparts, again capped at 35%. For diesel cars registered after April 2016, this will be removed.

Cars without an approved figure of CO₂ emissions are taxed according to engine size (in cubic centimetres). This will include all cars first registered before 1998 but only a small proportion of those first registered in 1998 and later.

What’s the car’s P11D value?
Company directors and employees earning more than £8,500 per annum are liable to pay tax on a company provided car. HMRC uses the car’s P11D value, which is the on-the-road list price (including the cost of extras), less the cost of first registration tax and road tax.

The list price is the price published by the vehicle manufacturer, importer or distributor as the inclusive price for a single car of that type on an open market retail sale in the UK. The list price to be taken is that applying on the day immediately before the date of the car’s first registration.

Cars without an actual list price will be taxed on a notional list price basis.
The following items are included in the list price:

» delivery charges
» VAT
» customs and import duties
» standard accessories fitted when the car was supplied
» optional accessories fitted after the car was first supplied and which cost over £100
» replacement accessories which are superior to the originals
» basic number plates

The following items are not included in the list price:

» running costs such as petrol, road tax, breakdown cover, etc
» warranties
» DVLA vehicle registration fees
» optional accessories costing less than £100 fitted after the car was supplied
» adaptations for the disabled
» personalised number plates

The P11D/list price may be reduced by up to £5,000 if an employee makes a contribution up to that value to the capital cost.

The tax charge for a company car is reduced pro rata if the car is not available for the whole year. Periods of less than 30 days during which the car is unavailable (eg for repairs) are disregarded.
## Company Car Benefit Charges

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The existing 0% and 5% bands will be abolished in April 2015

* For diesel cars add a 3% supplement charge to these tax years. From the tax year 2016-17 the supplement will be abolished for all diesel cars, including those already registered.
Fuel Benefit Charge (company-provided fuel for private use)
This tax applies where a person’s employer provides fuel for private use (see Free Fuel, page 42). The charge is linked to CO₂ emissions to encourage take up of cleaner vehicles.

How it works
To calculate the benefit charge on employer-provided fuel, the percentage BIK tax percentage arrived at for the company car will be multiplied against a set figure for the tax year. The current figure is £20,200.

Example
A Ford Mondeo has CO₂ emissions of 139 g/km. To calculate the charge:

1. Round the 139 down to 135 (the charges table rises in 5g/km increments)
2. Look up the percentage of the car’s price in the company car/BIK tax charges table – the figure for 2012/13 is 18%
3. Fixed Fuel Benefit multiplier of 20,200 x 18% = £3,636

The employee is then taxed on this amount according to their marginal income tax rate. The employer is charged Class 1A NI contributions on this amount at the prevailing rate.

Stopping employer-provided fuel during the tax year
If employer-provided fuel ceases to be provided during the tax year, an employee only has to pay a proportionate part of their annual tax charge.

The amount of Class 1A NI contributions would also be reduced to the same extent. However, receiving free fuel again later in the same tax year will prevent any apportionment for this reason.
Company Van Tax
This is payable where a company van is made available to an employee for private use, not including commuting. If an employee only uses the van for work purposes, or for travelling between home and work, no tax is payable. The same applies if the van is only used for insignificant private use (taking some rubbish to a refuse dump twice a year, for example).

The scale charge for unrestricted private use is currently £3,000, or nothing for electric vans. The electric van exemption will expire in April 2015.

Basic rate tax-payers who choose to have unlimited private use of their vehicles will pay 20% of £3,000, equivalent to £600. These changes do not apply to self-employed van drivers, for whom special exemption rules apply.

In addition, the employer must pay 13.8% NI on the benefit. There is no tax payable by the employee or employer if private use by an employee is restricted. The employer must be able to show HMRC that no tax is payable. It is recommended that this is demonstrated by keeping the following:

- mileage records
- a signed agreement about the van use
- make the use of the van part of the contract of employment

Employer-provided fuel
If the employer provides fuel for private use there is an additional charge of £550, regardless of the amount of fuel provided. The employer will have to pay Class 1A NI contributions on the fuel benefit.

Reduced charge
Under the regime, the standard tax charge may be reduced if the company van:

- is unavailable (excluded)
- is shared
- the employee makes payments in respect of its private use
Record keeping for private use
To enable an employer to report the benefit for an employee who has had private use of a shared van, the employer will need to identify:

- each van used by an employee
- the total number of vans which have been shared in a year
- the age of each shared van
- any periods before or after a van is used as a shared van
- periods of 30 or more consecutive days when a shared van was incapable of use
- periods of 30 or more days when a shared van was available for the exclusive use of one employee
A-Z of Vehicle Funding

A

Accessories
Contract hire companies sometimes impose restrictions on the accessories which may be fitted by drivers to a vehicle. Any contract will usually insist that such accessories remain in place or that any damage is made good when the car is returned.

Accidents
Under most financing agreements the user is obliged to provide comprehensive insurance cover for the leased vehicle. This insurance should cover any early settlement costs that would be payable if a lease vehicle is written-off in an accident. Insurance matters and accident procedures should be fully detailed in the contract terms.

Accident claims management
Many contract hire and fleet management companies now offer an accident claims management service. When a driver is involved in an accident, the contract hire company will manage the total process from completion of the claim forms through to supervising the repair. This can often speed up the repair and reduce time spent off the road.

Administration
The running of a car fleet involves clerical and organisational effort in many areas. Buying cars, selling used cars, dealing with garages and the DVLA are among the most obvious. A leasing or fleet management company can relieve the user customer of much of this workload but there will always remain some administration costs to the user.

Allocation policy
The terms under which a company makes cars available to its employees. Where a company buys its cars, the allocation policy is often linked to the purchase price of the vehicles. Where a company changes to some form of
leasing or contract hire it is more normal to base the car choice on monthly rentals or the total cost of ownership, including fuel, insurance, etc.

Amortisation
An accounting term which refers to the ‘writing-off’ of an asset over a period of time in a company’s books. A fully amortised asset or lease is one which has been fully depreciated and carries no value in the company’s balance sheet at the end of the period.

Balance Sheet
A financial statement summarising a company’s financial assets and liabilities at a point in time.

Balloon payments or balloon rentals
In some finance agreements a ‘balloon rental’ is due at the end of the lease period. It is often determined by the leasing company to be their view of the anticipated resale value of the vehicle at the end of the lease period. This means that monthly rentals are lower than in an agreement which repays the whole capital cost, since the user is paying for a reduced amount of depreciation in the monthly rental.

Balloon payments which are set high will produce a lower rental, but at the end of the lease the hirer may find they have a vehicle to sell which is worth less than the balloon rental and they will be responsible for making up any shortfall.

Breakdowns
In the event of a breakdown many contract hire agreements are able to provide a replacement car for a specified period while the hired car is off the road. Potential hirers should find out what level of service is included.

For example, is it only available after a certain period or for a limited duration? Agreements may include cover with breakdown assistance providers including the AA or RAC.
Budgeting
An important advantage of contract hire is that it assists the user in fixing forward budgets. Contract hire rentals are fixed for the period of hire and future costs are thus easy to determine.

C

Capital Allowances
These allow a company to obtain a Corporation Tax deduction for the cost of certain qualifying business assets (ie vehicles).

Company car (Benefit-in-kind) taxation
Income tax assessed on employees who have the private use of a company-provided car. Tax is also payable where the employee receives free fuel for private purposes. Benefit-in-kind tax does not depend on the method of vehicle funding.

Cash flow
The movement of cash into and out of a business.

Conditional sale
A conditional sale is a purchase agreement between the finance company and the customer, where the customer agrees to buy the vehicle. The customer achieves ownership when certain conditions have been met. These are normally:

- All the regular payments have been met
- The goods are insured and in good condition
- Any balloon payment under the agreement has been paid by the customer

Contract hire
One of the most common types of lease, also known as and usually accounted for as an operating lease. The contract hire company (the owner of the car) accepts responsibility at a fixed fee for depreciation, funding costs and administration. Contract hire is usually a fixed price service. The lease rental is split between the ‘finance’ element (payment for the use of
the car) and the optional additional services (servicing, repairs, breakdown cover, etc) to enable the lessee to recover all the VAT on the latter and to block 50% of the VAT on the former where there is any private use, subject to the normal rules. It is important that the leasing company issues a valid VAT invoice, separating out the finance and services elements of the lease, to facilitate this treatment.

Contract purchase
An agreement which seeks to provide the administrative advantages of contract hire, but uses a conditional sale or credit sale agreement, where the customer can own the vehicle once all the payments have been made.

Credit Sale
A credit sale is a contract between the finance company and the customer where the customer agrees to buy a motor vehicle. It is usually a fixed cost, fixed term loan. It differs from Hire Purchase and Conditional Sale in that the buyer of the goods immediately becomes owner.

Damage
Most contract hire agreements allow for the car to be returned at the end of the agreement in a reasonable condition for its age and mileage. Both parties should agree on what this is before signing an agreement. The BVRLA publishes guides to fair wear and tear for cars, and for light and heavy commercial vehicles, which are used by many leasing companies. No company will accept a car with damaged bodywork or broken glass, but some lessors may insist on charging the hirer for minor scratches and stone chips.

Depreciation
In car leasing terms, depreciation is the loss of value from the actual purchase price to the sale value when the car is sold. This may not be the same as the depreciation for tax or accounting purposes. Different vehicles have different depreciation patterns, which is why two cars may have the same cost price but a different contract hire rental. Depreciation is one of
the major costs in running vehicles and should be taken into account when comparing vehicle running costs and acquisition policies.

**Disposal**
At the end of the contract hire agreement, the car is returned to the owner and it becomes their responsibility to sell the car. In the case of a finance lease, any profit or loss on disposal may be returned to the lessee in the form of a rebate of rentals or extra balloon payment.

**Excess mileage**
With any contract hire agreement, the probable annual mileage the car will travel is crucial, since it will affect the resale price of the car at the end of the contract and the servicing costs built into the rental. The contract will be based, therefore, on a pre-agreed total mileage. If that mileage is exceeded, a penalty may be charged for excess miles to compensate the lessor for the increased cost of servicing and depreciation.

**Extras**
Almost any make and model of vehicle can be provided on lease or on contract hire. This includes any chosen specification, but users should be aware that factory extras, like accessories, often depreciate very quickly. The effect of this is to add considerably to the cost of hiring and it is wise to look at the cost of the basic car before comparing the costs of adding any extras.

**Finance lease**
A finance lease provides funding for the chosen vehicle. The lease may be a lease with a balloon rental (see Balloon payments, page 38) or a fully amortised (see Amortisation, page 38) lease with no balloon. The lessee may be entitled or required to sell the car at the end of the lease on behalf of the lessor. A substantial proportion of the proceeds of such a sale can be refunded to the lessee as a refund of rentals or fee.
Fleet management
Where a company wishes to delegate some or all of the tasks associated with buying, selling, operating or administering a vehicle fleet, these services can be supplied by fleet management companies and are usually invoiced on a monthly basis.

Flexible lease
A fully amortised lease which is often written for an initial period of up to 48 months. A schedule to such a lease will list the termination cost of cancelling the lease at any time after an initial minimum period.

Fuel card
Used in conjunction with a fuel policy, fuel cards can reduce fuel costs, improve purchasing control, streamline administration and introduce management information. Fuel cards deliver a regular, consolidated VAT invoice that ring fences fuel expenditure. Fuel cards are not taxed – see Free fuel, below.

Fuel management
Fuel is typically the second-highest fleet cost after vehicle depreciation. Adopting an effective policy, targeting cheaper fuel sites, reducing fuel consumption and mileages driven are all features of sensible fuel management.

Free fuel (company provided fuel for private use)
Car fuel benefit is a tax charge on an employee where fuel is provided by the employer for private use. No income tax charge arises on the employee if they pay for all their fuel and receive a business mileage allowance which is no more than the cost of the fuel used for business travel. Similarly, no income tax charge arises on the employee if the employee uses a fuel card for all fuel expenditure and reimburses the private mileage element to their employer. Keeping accurate records of business mileage is essential to avoid a free fuel liability.
**G**

Guaranteed buy-back
Some vehicle suppliers may undertake to supply a new vehicle and agree to repurchase the vehicle at a guaranteed price at a predetermined date and mileage in the future.

**H**

Hire purchase
A fixed-cost, fixed-period financing to support the purchase of a vehicle. In law the title to the vehicle may generally not pass until the final payment is made, which is usually in the form of a nominal ‘option to purchase’ fee.

Monthly repayments cover capital repayment plus interest and do not carry VAT. Where qualifying cars are financed through hire purchase, a fleet user would need to request a tax invoice to recover up front the input VAT. However, VAT is not recoverable on a car unless:

- it can be proved that no private use of the car will take place;
- the car is to be sold unused; or
- the car is purchased for use by a daily rental company, leasing or contract hire company, VAT-registered driving school or VAT-registered taxi firm.

See also Lease purchase, page 44

**Hirer**
The customer/lessee of the vehicle under a hire purchase or contract hire agreement.

**Hiring**
Hiring means obtaining the right to use an asset, without ownership, in return for the payment of a rental. Hiring can be short- or long-term and all forms of leasing are effectively hiring contracts.
IAS 17
IAS 17 is the lease accounting standard for those organisations applying International Accounting Standards.

Implicit rate
The interest rate implicit in the financing cost of a lease or hire agreement.

Insurance
Most leasing and hiring agreements require the lessee (user) to arrange comprehensive insurance cover with the lessor’s interest as the owner noted on the policy.
*See also Accidents, page 37*

Lease contracts
All leasing agreements must comply with statutory requirements and all members of the BVRLA must use contracts which comply with the association’s code of conduct. With small fleets or single users there is normally one contract or agreement per vehicle. Where a fleet of vehicles is involved it is normal for a master agreement to be signed and a schedule to be provided for each vehicle, which is added to the master agreement from time to time.

Lease purchase
The term lease purchase has developed to describe a type of hire purchase contract which includes a final balloon payment at the end of the agreement in order to reduce the monthly repayment during the life of the agreement. The monthly payments do not carry VAT. However, for qualifying cars, users would need to request a tax invoice to recover, up front, the input VAT.
*See ‘Hire purchase’ for entitlement to recover VAT, page 43*
Lease
The use of an asset without the ownership of it (see Hiring, page 43). The concept of separating use from ownership is important in law and in taxation treatment. Leasing without purchase is usually treated as a service for VAT purposes and the rentals are subject to VAT. The rental is split between the finance element (which takes into account the cost of the car including vehicle registration fees, road fund licence, its period of use and anticipated mileage, funding costs, its rate of depreciation and the forecasted residual value) and the optional additional services, to enable the lessee to recover all the VAT on the latter and to block 50% of the VAT on the former for cars where there is any private use.

Lessee
The user of the vehicle, the hirer.

Lessor
The owner of the vehicle, the leasing company.

Maintenance
An overall term to cover all the technical and mechanical attention needed by a motor vehicle, including routine services, repair and replacement of worn components. With a finance lease these costs are often borne by the lessee; with a contract hire agreement they may be borne by the lessor and effectively included in the rental. Check for any exclusions in comparing one contractor with another. A maintenance agreement will seldom cover broken glass or punctures.

Margin-scheme cars
Second-hand margin scheme cars are cars where input tax has been blocked from recovery earlier in the supply chain and no VAT is chargeable when purchased. This is because VAT has already been paid and blocked when the car was new. VAT is only payable on the sale of a margin scheme car if the selling price exceeds the original purchase price and then only on the margin.
Operating lease
Any lease under which most of the risks and rewards of ownership are borne by the lessor. Under current accounting rules, the fixed assets in an operating lease will remain on the balance sheet of the lessor and not the lessee.
See Contract hire, page 39

Personal contract hire
Personal contract hire is essentially the same as regular contract hire, but applies to individuals. However, as an individual, the customer will not be able to take advantage of any tax allowances or recover any VAT.

Personal contract purchase
An agreement between a finance or leasing company and an individual private purchaser of a vehicle. The agreement is normally based upon a conditional sale or credit sale agreement and, dependent on the amount of credit, may be regulated by the Consumer Credit Act. In other respects, the arrangements are similar to corporate contract purchase. It should be noted that personal contract purchase is not leasing and should never be described as personal leasing or personal contract hire.
See also Contract purchase, page 40

Present value (also net present value)
The present value of a sum of money receivable at a future date is that amount which if invested today at an interest rate (the discount rate) would grow to yield the same amount at that future date, eg using a discount rate of 10%, £100 would yield £110 in a year’s time, and thus the present value of £110 using a discount rate of 10%, is £100.
Q

Qualifying car
A qualifying car is a car which has not been subject to the full input tax block. This means that your business has recovered the input tax on the purchase in full. Such cars will be sold on a normal tax invoice with VAT charged on the full selling price.

R

Recovery services
Membership of roadside assistance organisations is often included in full maintenance contract hire. Check what level of service is included.

Registration documents
The V5 registration document does not indicate or confer ownership of a vehicle, it records the registered keeper. With finance leases, where the lessee is responsible for paying the annual vehicle excise duty, the car will normally be registered in the name of the lessee. With contract hire agreements the vehicle will nearly always be registered in the name of the contract hire company.

Relief cars (or replacement cars)
Some contract hire agreements which include maintenance can provide a replacement car if the hired car is off the road for repairs. This service may be available after 48 hours, 24 hours or one hour. Check the contract terms. For VAT purposes, if a car is hired simply to replace an off-the-road car, the 50% blocking rule applies.

Residual value
The estimated value of a leased vehicle at the end of a contract period, usually calculated based upon its age and mileage.
Rental
The periodic payment made by the lessee to the lessor under the terms of a leasing agreement. Rentals may be paid on any basis and may carry VAT.

Rental holiday
Any period during which rental is not paid as a result of an initial or deposit payment. This holiday is normally at the end of the agreement.

Replacement cycle
The normal period for which cars are used. The length of this cycle will be affected not only by annual mileage, but by differing depreciation characteristics of different models. It is worth comparing hiring rentals over differing periods and at differing annual mileages to determine the optimum replacement cycle.

Road traffic penalties
With some leases and most contract hire agreements the registered keeper on the vehicle registration document is the leasing company. Unpaid road traffic tickets will usually go to the lessor and they will be recharged to the lessee with an additional administration fee. For some offences, a lessor may be able to transfer liability to the customer, where the customer would be approached by the enforcement authority for payment.

Sale & lease back
A leasing company purchases the existing cars from the user company at an agreed value and leases or contract hires them back to the original owner or to a person connected with the original owner.

Spread rentals
The practice of collecting a number of rentals in advance on a contract and then dividing the balance payable by the contract length minus one month. This has the effect of reducing monthly payments.
SSAP 21
Statements of Standard Accounting Practice are the rules set out by the UK Accounting Standards Board concerning accounting conventions and the way accounts are presented for those applying UK GAAP. SSAP 21 concerns the treatment of leased assets and states that vehicles subject to a finance lease are required to be capitalised in the lessee’s balance sheet, with the lease rentals being shown as a liability. Operating leases are off balance sheet as far as the lessee is concerned and the rentals only appear as operating costs in the profit and loss account. IAS 17 is the lease accounting standard for those applying International Accounting Standards.

Terminal pause
Many lessors collect three or six rentals in the first month of a contract. Where this occurs there will usually be a terminal pause with no payments being made in the last two to five months of the contract. Users should ensure in comparing lease quotations that they are comparing like with like in respect of repayment patterns and numbers of rentals.

Title
In most forms of leasing agreement, legal title to the vehicle, or legal ownership, is retained by the lessor and cannot be obtained by the lessee. If title is envisaged to pass under a lease purchase contract the contract is likely to be treated as a supply of goods rather than services for VAT purposes.

Tyres
In most contract hire agreements, where servicing and maintenance is included, the contract hire company will pay for replacement tyres. This service is sometimes restricted to a maximum number of new tyres over the life of the contract and hirers should check this point before signing an agreement. Punctures or other tyre damage are generally not covered.
Value Added Tax (VAT)
VAT is charged on taxable supplies of goods and services. Most leasing agreement rentals are subject to VAT at the standard rate. Where there is any private use of the car, only 50% of the VAT may be reclaimed by a VAT-registered lessee on the element of the rental relating to the supply of the car and the vehicle excise duty. All the VAT may be claimed, subject to the partial exemption rules, on most additional services (e.g., maintenance charges) under a leasing agreement, provided these are shown separately on tax invoices. A tax invoice is required to reclaim VAT as input tax. VAT is not recoverable on the purchase of a car unless specific rules are satisfied (see Hire purchase, page 43). Independent VAT advice should be taken on specific transactions due to the complexities of VAT accounting on motor vehicle funding.

Vehicle Excise Duty
The vehicle tax disc is renewed by the lessor in operating leases and the new disc will normally be sent to the lessee a few days before the expiry of the previous one. Normally the lessor is the registered keeper of the vehicle. With finance leases the responsibility for applying for road tax renewals remains with the lessee.

Wear and tear
Most leasing companies have a clause in the agreement for operating leases concerning wear and tear. Where the lessee returns the vehicle without first rectifying excess wear and tear damages, the lessee is then in breach of the contract. Any damage recharges subsequently made by the lessor will, generally, be outside the scope of VAT as they are compensatory in nature. It is always important to check the precise terms of the contract hire agreement.
HYbrid4 TECHNOLOGY – FULL HYBRID DIESEL

PEUGEOT recommends: TOTAL

(1) = 3008 HYbrid4, (2) = 508 HYbrid4 Saloon, (3) = 508 RXH. Combined consumption (l/100 km): (1) 74.4, (2) 78.5, (3) 68.9. CO₂ emissions (g/km): (1) 99-104, (2) 95, (3) 107.