Vehicle Funding

Guide

BVRLA

Contents

ABOUT THE BVRLA

The British Vehicle Rental & Leasing Association (BVRLA) is the trade body for companies engaged in the leasing, rental and fleet management of cars and commercial vehicles for both corporate and consumer users.

BVRLA membership assures customers that they should expect the highest levels of professionalism and integrity when renting or leasing vehicles from BVRLA members. The BVRLA promotes ethical trading, clear pricing, transparent terms and conditions and high-quality vehicles and customer service standards through the auditing of its members.

The BVRLA operates a conciliation service for its members and their customers to help resolve disputes.

For more information about the BVRLA, please go to www.bvrla.co.uk

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Foreword

Grant Thornton is delighted to work with the BVRLA on this guide, which takes a hard look at a crucial and also very emotive topic: the business car. Remuneration packages are a key negotiation point within the cost base of any business, with the role that business cars play being of significant importance.

BVRLA members are at the forefront of providing solutions and services to make the provision of cars as cost-effective and flexible as possible. Grant Thornton has considerable experience working with those members, as well as corporates of all sizes, which are faced with the day-to-day decisions around company car provision.

We understand the financing options, employer solution issues, and the different ways to deliver this benefit. Tax is a fundamental issue, but not a standalone one, and there are different considerations for each set of circumstances. Commerciality is always the key driver and at Grant Thornton our deep automotive sector knowledge, tax expertise, and ability to work with the supplier and buyer communities in tandem mean we can contribute to the subject of vehicle funding.

We hope you find this guide valuable and can make use of the thoughts and ideas presented throughout. It is not a substitute for professional advice but a very helpful source of reference.

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Introduction

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

Its members operate a combined fleet of 4.5 million cars, vans and trucks. BVRLA members buy nearly 50% of all new vehicles sold in the UK each year – an estimated one million vehicles (including 308,000 UK-made vehicles). Collectively, members of the BVRLA support around 317,000 jobs and contribute over £24.9bn to the UK economy each year. Through its members and their customers, the BVRLA represents the interests of over two million business car drivers and ten million people a year who choose to rent a vehicle in the UK.

Cars, vans and trucks provide essential transport for both companies and individuals. But they can be expensive to own and operate, so it is important to select the appropriate financing method when purchasing or otherwise accessing them. Various options are available, each of which has its own advantages and disadvantages depending on an organisation's operational objectives, accounting methods and cash flow requirements.

This guide has been produced in association with professional services firm Grant Thornton UK LLP to assist consumers and businesses in choosing the most appropriate solution for their circumstances. It looks at the pros and cons of buying vehicles outright, in addition to a wide range of funding services offered by BVRLA members. It also takes a fresh look at the debate surrounding whether to give employees a company car or cash alternative.

In these pages we examine the key features of selected funding options and explore the accounting and tax implications for the organisation using or owning the fleet.

This guide covers:

- 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 business 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
- CO_2 emissions profile of its fleet
- attitude to risk
- balance sheet structure
- availability of in-house fleet management expertise
- driver profile

Since cars form the majority of BVRLA members' fleets and the total UK corporate-owned vehicle fleet, this publication focuses on cars throughout. However, the funding methods described 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.

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Contract Hire

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

The monthly rental rate 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).

Vehicle mileage will have a big impact on the rental 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 contract hire agreements may include a 'service' element or 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. Users are able to choose from a menu of options to meet their individual needs.

Salary Sacrifice

Salary sacrifice car schemes, which are increasing in number, are usually based on an underlying contract hire arrangement between a leasing company and the employer of a company car driver. Salary sacrifice is not a funding method for the car itself, but an arrangement between an employer and employee for the benefit of a company car to be provided in exchange for an adjustment in gross salary. These arrangements can work well where there is interest in offering access to a company car to the wide employee population without incurring costs. There are also savings for the employer providing ultra-low emitting cars.

Tax treatment of contract hire

The tax deductions for business car expenses are dependent on the CO_2 emissions of each vehicle. Cars are treated in one of two ways:

BUSINESS CAR TAXATION	Low CO_2 Car Cars emitting up to 130g/km (up to 110g/km from 1 April 2018)	High CO_2 Car Cars emitting 131g/km or more (111g/km or more from 1 April 2018)
Lease Rental What percentage of the lease rental payments can a business claim against its taxable profits?	**100%**	**85%**

NOTE:
THIS TAX TREATMENT ONLY APPLIES TO THE FINANCE ELEMENT OF A LEASE.
THE 15% RESTRICTION ON HIGH CO_2 CARS IS IN PLACE FOR THE DURATION OF THE LEASE.

A business customer 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 and 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 a business customer.

VAT recovery is limited to 50% on of the finance element of the rental charge. This is referred to as ‘blocking’ the VAT. It does not apply to any services rendered under a contract hire agreement, such as maintenance, for which VAT is fully recoverable by a business customer, 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 was agreed.

In order for the business customer to reclaim VAT, it is important that the leasing company issues the correct type of invoice. The BVRLA has an agreement with HM Revenue & Customs which provides guidelines for members on the contractual arrangements that would need to be in place, as a minimum, to demonstrate the existence of two or more separate supplies, for example the supply of finance separated out from the supply of maintenance. Provided there is more than one supply, the 50% block should apply only to the supply relating to the provision of the car itself, ie to the depreciation, funding and profit/overhead element.

The agreement can be found in the *BVRLA Guide to VAT* (Appendix 3)

Contract Hire continues on page 8

Accounting for contract hire

A contract hire agreement is usually accounted for as an operating lease, meaning that vehicles do not appear on the lessee's balance sheet because the risks and rewards of ownership remain with the lessor.

Where the contract hire is accounted for as an operating lease, the fixed monthly rentals are recognised as an expense on a straight line basis over the lease term, unless another systematic basis is more representative of the time pattern of the lessee's benefit.

For organisations reporting under International Financial Reporting Standards (IFRS), the International Accounting Standards Board (IASB) issued IFRS 16 in January 2016 to replace IAS 17 for accounting periods starting on or after 1 January 2019. IFRS 16 will bring most operating leased assets and their associated liabilities onto the balance sheet. The IASB's US counterpart, the Financial Accounting Standards Board, has published its equivalent of the standard which is available here and effective for financial years beginning after 15 December 2018.

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 no longer bears any of 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 lease back 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.

More information is available on the BVRLA website: www.bvrla.co.uk

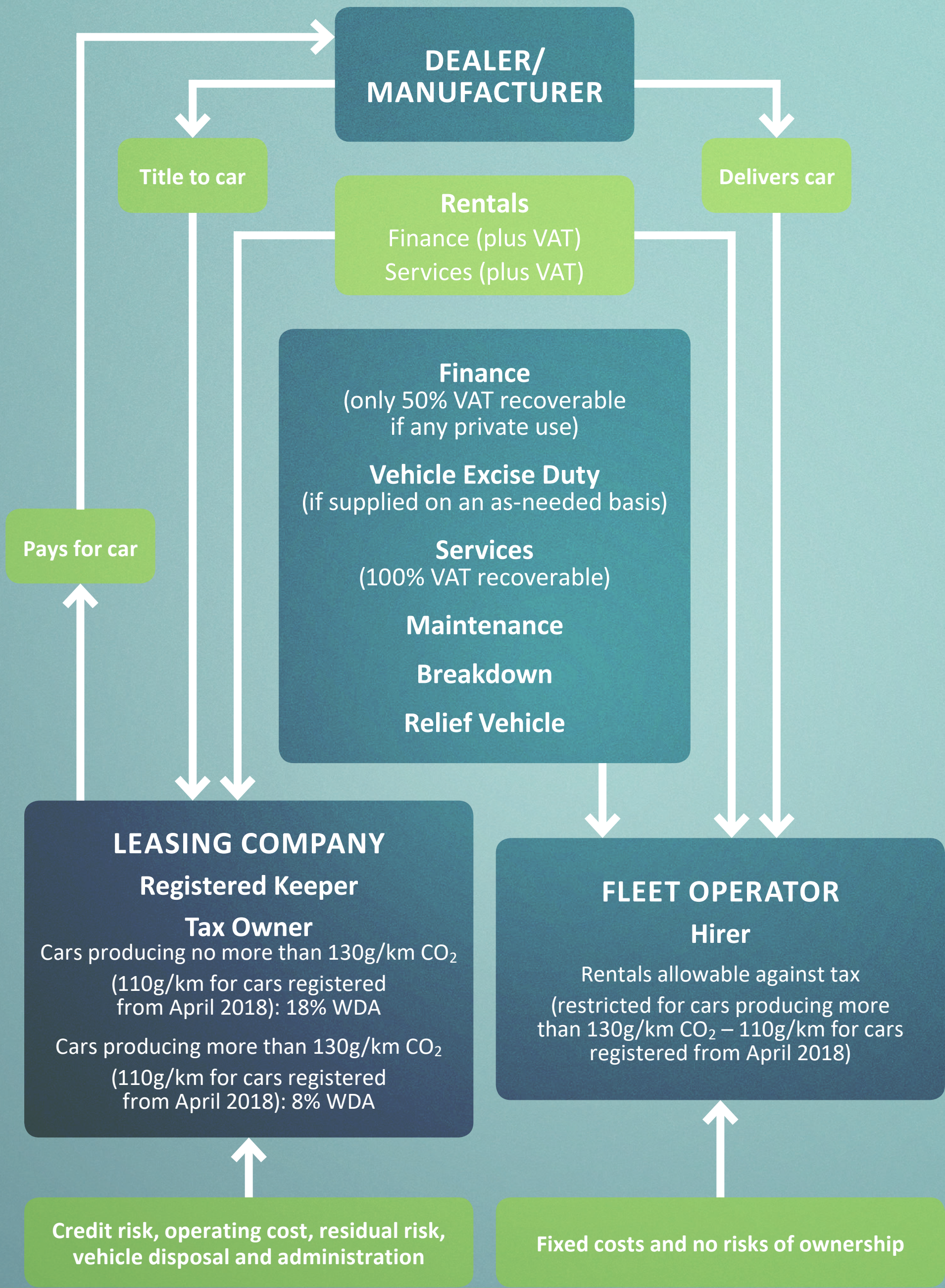
Pros

- Fixed-cost motoring
- Frees up cash flow
- 100% of VAT claimable if the vehicle is used solely for business
- 50% of VAT claimable if private use is allowed by a business
- Rentals are Corporation Tax-deductible
- Additional line of finance that doesn't affect banking arrangements
- Eliminates most of the stresses/ financial risks of vehicle ownership

Cons

- Estimates of the time and mileage of vehicle use are required
- No option to purchase the vehicle

Contract Hire



Finance Lease

As with contract hire, a finance lease allows the lessee to hire a vehicle for a fixed monthly fee, with the vehicle remaining the property of the leasing company.

However, using a finance lease means that the vehicle will appear on the lessee's balance sheet, with outstanding rentals represented as a liability because the risks and rewards of ownership rest with the lessee.

A finance lease generally conforms to one of two standard formats: a lease with a final balloon payment (smaller monthly payments with a final big payment at the end), or the fully amortised lease, in which the finance is spread over a fixed period with the same amount being paid on a regular basis, usually monthly.

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

A fully amortised lease finances the full value of the vehicle over the primary lease period from the monthly payments. Under these circumstances the lessee can be offered a lease on the vehicle for a secondary period at a nominal 'peppercorn' rental and possibly a share in the sales proceeds when the vehicle is disposed of by the leasing company.

Pros

Fixed monthly rentals

50% of VAT can be claimed on the rental if there is any private use of the vehicle

Rentals are Corporation Tax-deductible

Potential to carry on using the vehicle at the end of the primary lease period

Additional line of finance without affecting core banking arrangements

Vehicle appears as an asset on company books

Cons

Risk of a fall in used vehicle prices

Monthly rentals appear as a liability on balance sheet

Tax treatment of finance leases

Assuming that the lessor is entitled to capital allowances, the tax deductions for business car expenses are dependent on the CO_2 emissions of each vehicle. Cars are treated in one of two ways:

BUSINESS CAR TAXATION	Low CO_2 Car Cars emitting up to 130g/km (up to 110g/km from 1 April 2018)	High CO_2 Car Cars emitting 131g/km or more (111g/km or more from 1 April 2018)
What percentage of the finance depreciation and interest paid can a business claim against its taxable profits?	**100%**	**85%**

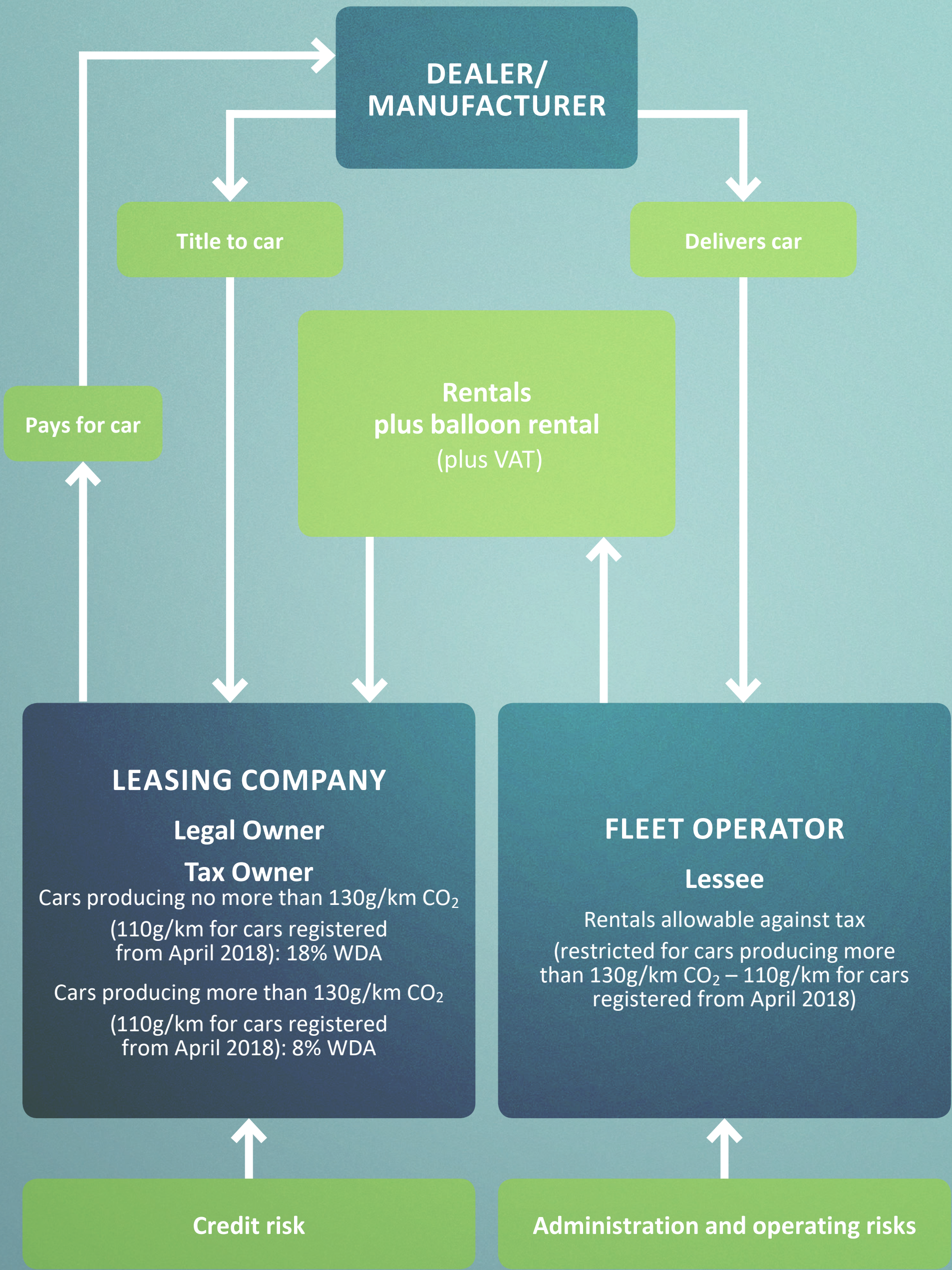
NOTE:
THIS TAX TREATMENT ONLY APPLIES TO THE FINANCE ELEMENT OF A LEASE.
THE 15% RESTRICTION ON HIGH CO_2 CARS IS IN PLACE FOR THE DURATION OF THE LEASE.

Business customers can recover a maximum of 50% of the VAT on the lease charges, if there is any private use of the car, subject to normal partial exemption rules.

See the Contract Hire section starting on page 6 for further details of charges not subject to the 50% restriction.

Finance Lease chart on page 12

Finance Lease



Contract Purchase

Contract purchase essentially sees a customer agree to purchase a vehicle via a series of monthly instalments. Ownership passes to the purchaser 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 passes 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, such as a service plan or maintenance, can also be included with a contract purchase agreement.

Pros

Fixed-cost method of financing a vehicle purchase

Purchase cost is tax deductible

Interest elements on monthly payments are tax deductible

Certainty over residual values through a guaranteed buy-back or a guaranteed future value

Cons

At risk from lower residual values if purchasing the vehicle at the end of the lease

Outstanding instalments appear as a liability on balance sheet

Contract Purchase continues on page 14

Tax and accounting treatment of contract purchase

In most cases, a business customer is entitled 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.

Capital expenditure on all business cars is treated in one of three ways for capital allowance purposes, depending on the CO_2 emissions of each vehicle.

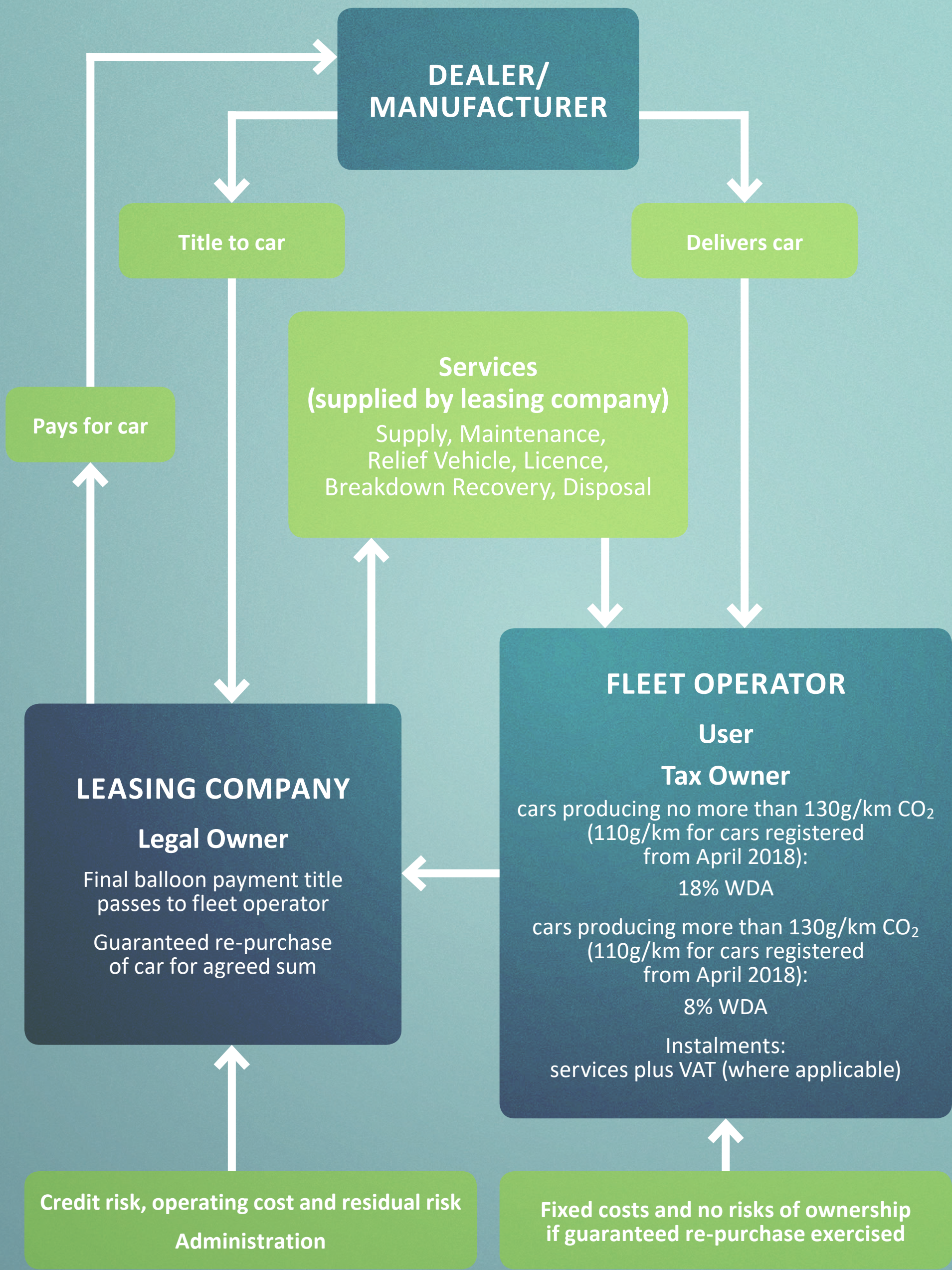
BUSINESS CAR TAXATION	Ultra-Low CO_2 Car **Cars emitting 75g/km or less** (50g/km or less from 1 April 2018)	Low CO_2 Car **Cars emitting between 76g/km and 130g/km** (between 51g/km and 110g/km from 1 April 2018)	High CO_2 Car **Cars emitting 131g/km or more** (111g/km or more from 1 April 2018)
Purchase Cost How much of the capital cost of the car can a business claim against its taxable profits?	**100% in the first year**	**18% each year on a reducing balance basis, with the expenditure included in the general plant and machinery tax pool**	**8% each year on a reducing balance basis, with the expenditure included in the special rate pool**

No VAT is imposed on the monthly instalments for qualifying purchasers (see Hire Purchase section, starting on page 16). However, the finance company 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.

Contract Purchase



Hire or Lease Purchase

Another method of achieving vehicle ownership is hire purchase (also referred to as lease purchase).

Pros

Purchase cost is Corporation Tax-deductible

Interest elements on monthly payments are 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

Under this type of agreement the purchaser in effect takes out a loan to buy vehicles from a third party. 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.

Tax and accounting treatment of hire purchase

A hire purchase arrangement must be accounted for as a finance lease in order for the business customer (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 that may be indicated by a nominal value purchase option.

Capital expenditure on all business cars is treated in one of three ways for capital allowance purposes, depending on the CO_2 emissions of each vehicle.

BUSINESS CAR TAXATION	Ultra-Low CO_2 Car Cars emitting 75g/km or less (50g/km or less from 1 April 2018)	Low CO_2 Car Cars emitting between 76g/km and 130g/km (between 51g/km and 110g/km from 1 April 2018)	High CO_2 Car Cars emitting 131g/km or more (111g/km or more from 1 April 2018)
Purchase Cost How much of the capital cost of the car can a business claim against its taxable profits?	**100% in the first year**	**18% each year on a reducing balance basis, with the expenditure included in the general plant and machinery tax pool**	**8% each year on a reducing balance basis, with the expenditure included in the special rate pool**

With hire purchase the user can charge 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.

Hire or Lease Purchase continues on page 18

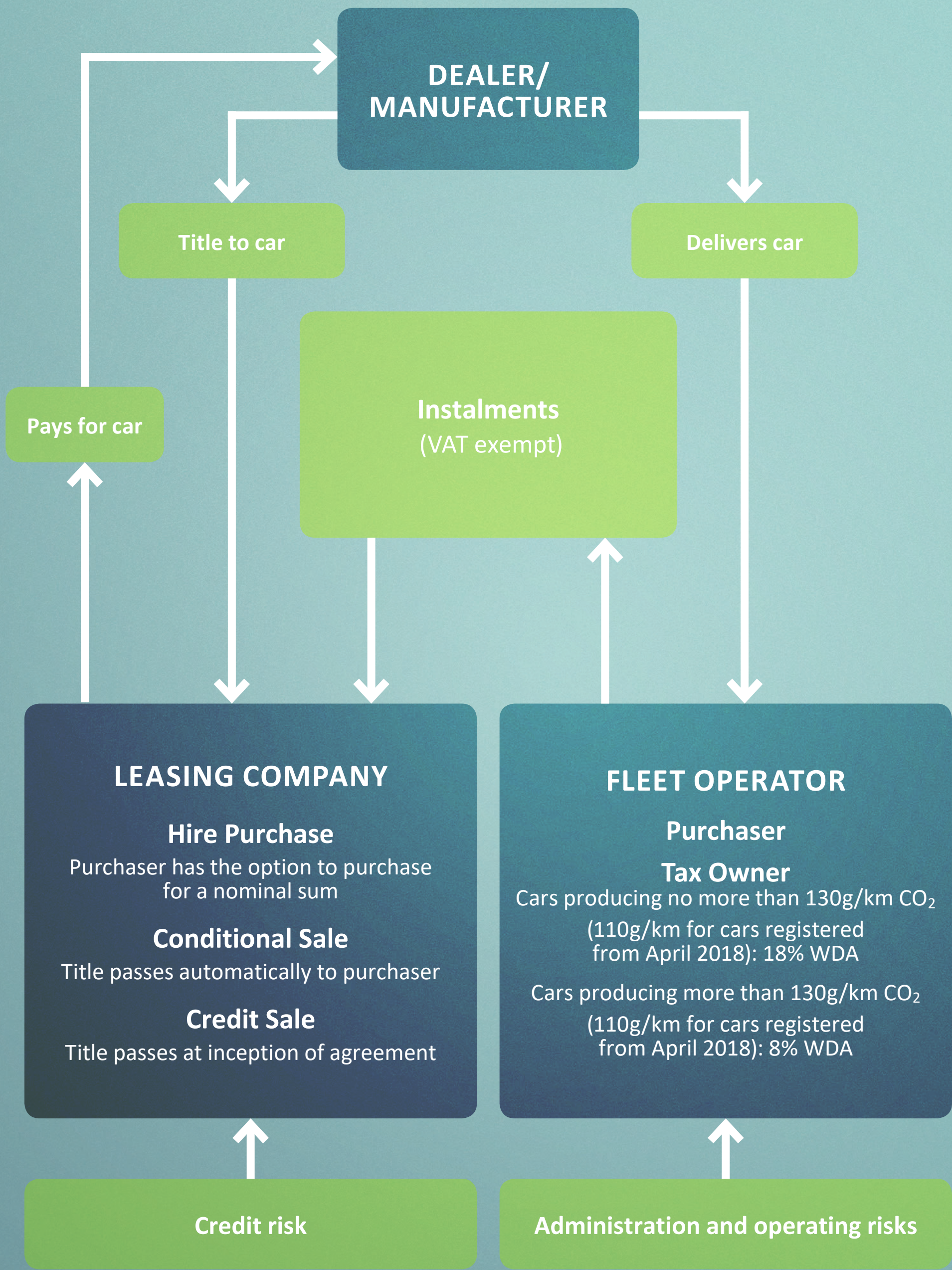
The VAT payable on the supply of goods is calculated according to the total amount payable over the term of the agreement, net of interest charges, even though the customer may have an option not to pay all of the sums specified in the agreement.

The customer will not be able to recover VAT they have paid if any private use of the vehicle 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.

Hire or Lease Purchase



Outright Purchase

For accounting purposes, the purchase of vehicles with company or borrowed funds, for ongoing use in a company's operations, is usually regarded as an acquisition of a fixed asset. As such, the vehicles would be recorded on the organisation's balance sheet and depreciated over their useful life down to an estimated residual value.

This method gives the greatest level of control over how a vehicle is procured. Outright purchase also provides a potential influx of funds when vehicles are sold.

However, purchasing 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 vehicle market, both for new and used vehicles. In residual value terms, this may result in a windfall if the sale price exceeds book value, but it could also produce a loss if the price falls short of the written-down value. Cash flow and budget forecasts are complicated by the used vehicle market's unpredictability and the range of disposal options open to companies owning vehicles. These include auctions, websites, dealers, trade-ins, local paper advertisements and direct sales to employees.

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

Pros

Fixed-cost method of financing a vehicle purchase

Purchase cost is tax deductible

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

Outstanding loan repayment would appear as a liability on the balance sheet

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.

BUSINESS CAR TAXATION	Ultra-Low CO_2 Car Cars emitting 75g/km or less (50g/km or less from 1 April 2018)	Low CO_2 Car Cars emitting between 76g/km and 130g/km (between 51g/km and 110g/km from 1 April 2018)	High CO_2 Car Cars emitting 131g/km or more (111g/km or more from 1 April 2018)
Purchase Cost How much of the capital cost of the car can a business claim against its taxable profits?	**100% in the first year**	**18% each year on a reducing balance basis, with the expenditure included in the general plant and machinery tax pool**	**8% each year on a reducing balance basis, with the expenditure included in the special rate pool**

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

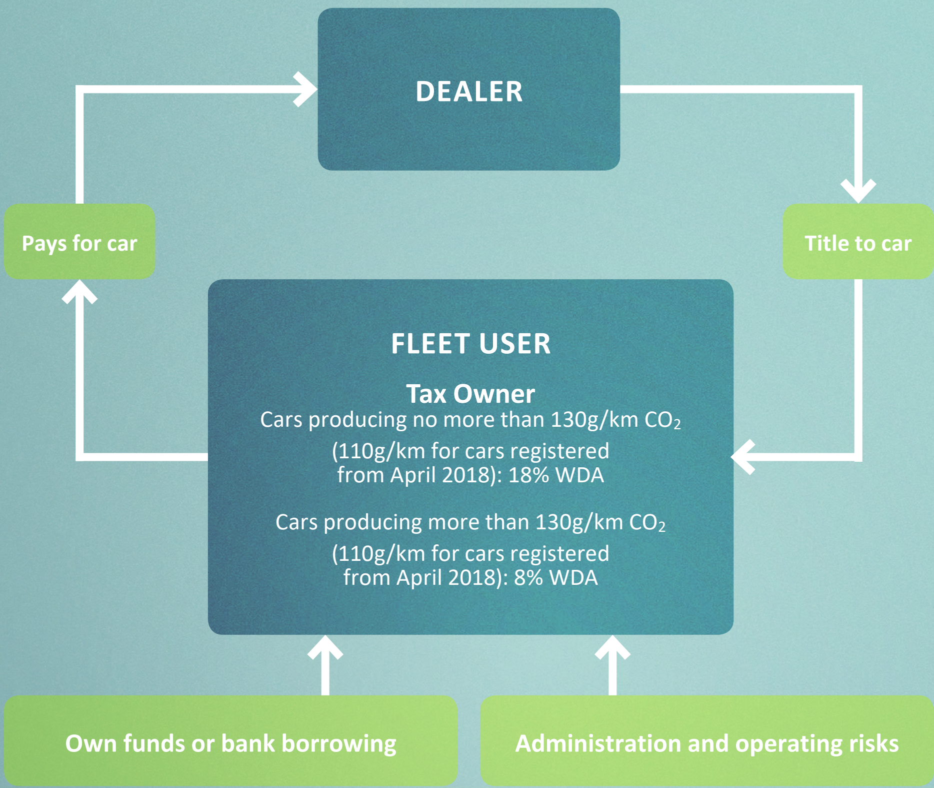
- it can be proved that no private use of the car will take place;
- the car is to be sold unused; or
- the car is purchased for use by a daily rental company, leasing or contract hire company, VAT-registered driving school or VAT-registered taxi firm.

VAT is recoverable on the purchase of both new and used cars if the vehicle is used 'primarily for a relevant purpose' or 'exclusively for the purposes of a business'. In other words, a company's pool cars 'qualify' for VAT if they are not available for drivers' private use (these cars are commonly known as 'qualifying cars'). VAT incurred on the purchase of the average company car is therefore not recoverable if there is *any* private use of the vehicle.

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.

Outright Purchase chart on page 22

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)

Personal Motoring Schemes

These are designed for organisations seeking an alternative to traditional company car provision. They may be available for employees who do 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 (PCH), personal car plans (PCP), or employee car ownership schemes (ECOS).

Personal Contract Hire

Personal contract hire is much 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 the employee receives a cash allowance or not.

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 funding only 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.

Personal Motoring Schemes continues on page 24

Employee Car Ownership Schemes

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.

ECO schemes can be complex to operate and difficult for employees to understand, but leasing companies will 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 is no company car benefit-in-kind tax payable. 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, the 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. These tax-free allowances are known as approved mileage allowance payments (AMAPs). The rates quoted by HM Revenue & Customs (HMRC) are not binding upon companies, which may reimburse at whatever rate they feel is appropriate for the car being used by their employee. HMRC will treat any payments in excess of AMAPs as taxable, but employees can claim income tax relief from HMRC on any resultant shortfall in their travel expenses.

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

Employee Benefits

Company Car Taxation System (Benefit-in-Kind 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 (CO_2) emissions.

The Benefit-in-Kind (BIK) tax rate currently starts at 5% for cars emitting between 0 and 50g of CO_2 per kilometre. For cars emitting between 51 and 75g/km, the BIK rate is 9%, and for cars emitting between 76 and 94g/km, the BIK rate is 13%. The charge increases in 1% steps for every additional full 5g/km over that level. There is an overriding maximum charge of 37% of the car's list price.

The percentages change on the 1 April every year, and the latest tables up to tax years 2018/19 are available at www.gov.uk

Diesel engine vehicles are subject to an extra 3% supplement compared to their corresponding petrol counterparts, again capped at 37%.

Cars without an approved figure for CO_2 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?
Employees and company directors earning more than £8,500 per annum are liable to pay tax on a company-provided car. However, in April 2016 all employees became subject to tax irrespective of their level of income. HMRC uses the car's P11D value, which is the on-the-road list price (including the cost of extras), minus 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.

Employee Benefits continues on page 26

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 fuel, road tax, breakdown cover, etc
- warranties
- Driver & Vehicle Licensing Agency (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.

Further information is available at www.gov.uk/calculate-tax-on-company-cars

Fuel Scale Charge

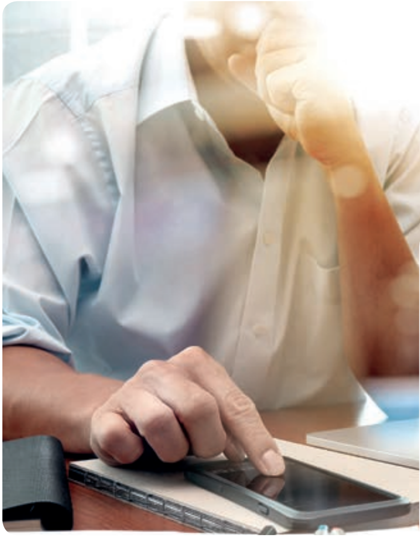
The VAT fuel scale charge system is a simplified way of taxing the private use of car fuel. Therefore, if a company-provided car is used for both business and private motoring, the employer can reclaim all the VAT on fuel. This is done by applying the appropriate fuel scale charge rate as set by HMRC.

Further information is available at www.gov.uk/fuel-scale-charge

Fuel Benefit Charge (COMPANY-PROVIDED FUEL FOR PRIVATE USE)

This tax applies if an employer provides fuel for an employee's private use. If the employee is required to repay their employer the full cost of any fuel used for private mileage – and does repay it – this tax is not payable. If they repay only part of the cost, the full tax charge is due. The reimbursement by the employee should be made no later than 30 days after the end of the tax year to which it relates.

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



Further information is available at www.gov.uk/calculate-tax-on-company-cars

Employee Benefits continues on page 28

Advisory Fuel Rates (AFRs)

AFRs are recommended reimbursement amounts for drivers reclaiming business mileage, usually for those driven in company vehicles. HMRC reviews the advisory fuel rate, based on fuel prices, every quarter, and publishes revised figures, if required, in late February, May, August and November each year.

The latest advisory fuel rates are available at www.gov.uk

Company Van Tax

This is payable if 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 £3,170, or nothing for electric vans.

Basic rate taxpayers who choose to have unlimited private use of their vehicles will pay 20% of £3,170, that is £634. 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 the 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 contract of employment detailing permitted use of the van.

Employer-Provided Fuel

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

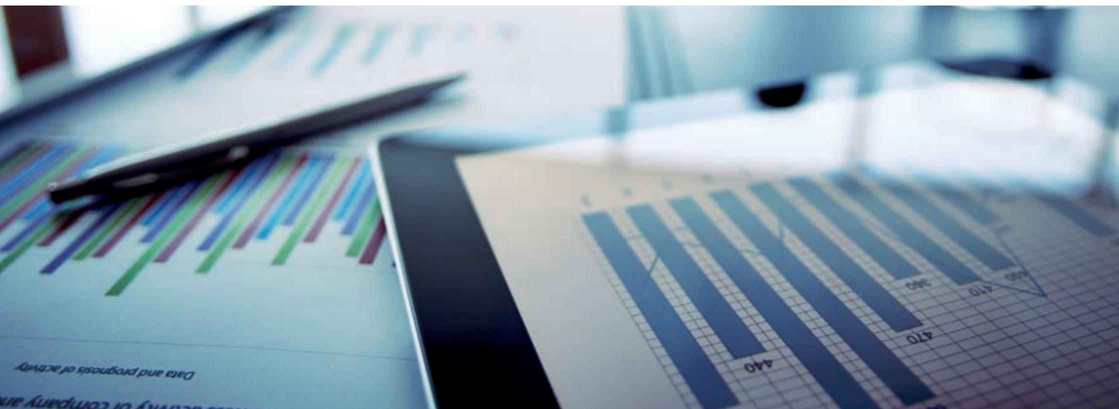
Reduced charge
The standard tax charge may be reduced if the company van:

- is unavailable
- 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:

- 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.

Further information on the company van tax regime is available at www.gov.uk



A-Z of Vehicle Funding

A

Accessories
Contract hire companies may impose restrictions on the accessories that may be fitted to a vehicle by drivers. The 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 may not cover any early settlement costs that would be payable if a lease vehicle were to be written-off in an accident. Insurance matters and accident procedures should be 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 vehicle fleet involves clerical and organisational effort in many areas. Buying vehicles, selling used cars, and dealing with garages and the DVLA are among the most obvious. A leasing or fleet management company can relieve its customer of much of this workload but there will always remain some administration costs for the vehicle user.

Advisory Fuel Rates (AFRs)
AFRs are recommended reimbursement amounts for drivers to use when reclaiming business mileage, usually for miles accrued in company vehicles. HMRC reviews the advisory fuel rate every quarter, based on fuel prices, and publishes revised figures, if required, in late February, May, August and November each year.

Allocation Policy
This means the terms under which a company makes cars available to its employees. Where a company buys its vehicles, the allocation policy is often linked to their purchase price. Where a company has 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.

B

Balance Sheet

A financial statement summarising a company's financial assets and liabilities at a point in time.

Balloon Payments

In some finance agreements a 'balloon payment' is due at the end of the lease period. In theory, this final payment is geared to the anticipated resale value of the vehicle, so the amount of the balloon payment should be recovered from the disposal of the asset. This means that monthly rentals are lower than in an agreement that repays the whole capital cost, because the user is paying for a reduced amount of depreciation in the monthly rental. Balloon payments that 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 that is worth less than the balloon payment and they will be responsible for making up any shortfall.

Breakdowns

In the event of a vehicle breakdown, many contract hire agreements are able to provide a replacement vehicle for a specified period while the hired vehicle is off the road. Potential hirers should find out what level of service is included. For example, is the replacement vehicle only available after a certain period or for a limited duration? Agreements may include cover with breakdown assistance providers.

Budgeting

An important advantage of contract hire is that it assists the user in fixing budgets. Contract hire rentals are fixed for the period of hire and future costs are thus easy to determine.

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C

Capital Allowances
These allow a company to write off the cost of certain qualifying business assets (ie vehicles) against its Corporation Tax bill.

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

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 if the employee receives free fuel for private purposes. Benefit-in-Kind Tax does not depend on the method of vehicle funding.

Conditional Sale
A conditional sale is a purchase agreement between the finance company and the customer, in which 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. For a fixed fee, the contract hire company (the owner of the vehicle) accepts responsibility for depreciation, funding costs and administration. Contract hire is usually a fixed-price service. The rental is split between the ‘rental’ or ‘finance’ element (payment for the use of the car), and the optional additional services (maintenance, breakdown cover, etc), to enable the lessee to recover all the VAT on the latter and to limit VAT to 50% on the former where there is any private use, subject to the normal rules.

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. This finance may be preferable for customers who want the benefits of owning an asset combined with the peace of mind of fixed budgeting.

Credit Sale
A credit sale is a contract between the finance company and the customer in which 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 becomes their owner immediately.

D

Damage

Most contract hire agreements allow for the vehicle 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. No company will accept a vehicle with damaged bodywork or broken glass, but some lessors may insist on charging the hirer for minor scratches and stone chips.

The BVRLA publishes guides to fair wear and tear for cars, light commercial vehicles and heavy commercial vehicles. These guides are used by many leasing companies.

Depreciation

Depreciation is the loss of value between the original purchase price of a vehicle and its eventual resale price. 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 an extra balloon payment.

E

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 vehicle 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.

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F

Finance Lease

A finance lease provides funding for the chosen vehicle. The term ‘finance lease’ in an accounting sense is defined within the relevant accounting standards. See FRS 102, Chapter 20 IAS 17 and SSAP 21 for further information. They can be found on the Accounting Standards boards’ websites (UK and USA).

In a vehicle funding context, there are two types of finance lease: a lease with a final balloon payment (normally for the equivalent of the residual value of the vehicle), or a fully amortised lease with no balloon payment (see Amortisation). 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

If 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 that 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.

Free Fuel (Company-Provided Fuel for Private Use)

Car or van fuel benefit is a tax charge on an employee for fuel provided by their 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 that 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 (see below) 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.

FRS 102

Financial Reporting Standard 102 is a single reporting standard that replaces almost all other existing UK accounting standards for accounting periods commencing on or after the 1 January 2015. Under FRS 102 a lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A vehicle subject to a finance lease is required to be capitalised in the lessee’s balance sheet, with the lease rentals being shown as a liability. Operating leases are usually off balance sheet for the lessee and the rentals are treated as an expense over the term of the lease on a straight-line basis in the profit and loss account. A lessee with an operating lease will need to disclose the total of future minimum lease payments under non-cancellable operating leases. A hire purchase-type agreement is treated the same as a finance lease.

Fuel Card

Fuel cards allow a user to pay for the fuel they have purchased in a similar way to using a credit 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.

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.

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 (See also Lease 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 upfront 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.

Hirer

The lessee of the vehicle under a hire purchase or contract hire agreement.

Hiring

The technical description of hiring is to have the use of an asset without ownership for the payment of a rental fee. Hiring can be short- or long-term and all forms of leasing are effectively hiring contracts.

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I

IAS 17

IAS 17 is the current lease accounting standard for those organisations applying International Financial Reporting Standards (IFRS). The standard makes a distinction between leases that transfer substantially all of the risks and rewards of ownership of an asset to lessees (finance leases) and other leases (operating leases). The International Accounting Standards Board (IASB) released IFRS 16 in January 2016 to replace IAS 17 for accounting periods starting on or after 1 January 2019. IFRS 16 will bring most operating leased assets and their associated liabilities on to the balance sheet. There is an option to exclude leases where the term is less than 12 months and any leases where the underlying asset is of low value.

IFRS 16 does not specify a value threshold for determining whether a lease has an underlying asset of low value, and as such this assessment will require judgement. However, vehicle leases are highly unlikely to qualify as a 'low value' asset lease because the upper limit threshold is shown as $5,000 in the standard. Overall, IFRS 16 will therefore have a major impact on the financial statements of companies that have significant operating leases that do not meet either of these exceptions, and is expected to have an impact when operating leases for vehicles are accounted for.

Implicit Rate

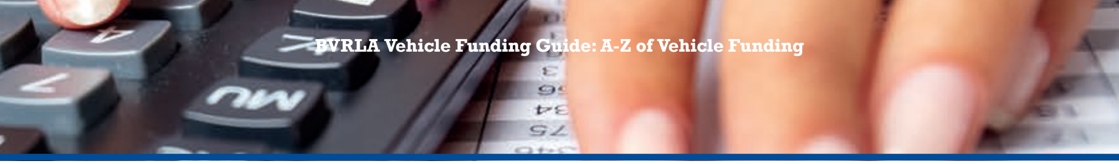
The interest rate implicit in the financing cost of a lease or hire agreement.

Input VAT

Input VAT is the Value Added Tax added to the price when you purchase goods or services liable to VAT.

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.



L

Lease

The use of an asset without the ownership of it in return for regular payments.

The concept of separating use from ownership is important in law and in taxation. Leasing without purchase, ie contract hire, is usually treated as a service for VAT purposes. 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 limit to 50% the VAT on the former for cars where there is any private use.

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 (see Hire Purchase)

The term 'lease purchase' has grown up to describe a type of hire purchase contract that 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, upfront, the input VAT. See Hire Purchase for entitlement to recover VAT.

Lessee

The user of the vehicle; the hirer.

Lessor

The owner of the vehicle; the leasing company.

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M

Maintenance

An umbrella 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

VAT margin schemes tax the difference between the original purchase price of an item and its subsequent resale price (the ‘margin’), rather than the full resale price. Second-hand cars from which input tax was blocked from recovery earlier in the supply chain do not incur VAT when purchased. 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.

O

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.

P

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.

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 that has not been subject to the full input tax block. This means that the 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.
See Breakdowns.

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 that 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.

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.

Residual Value

The estimated value of a leased vehicle at the end of a contract period, usually calculated based upon its age and mileage.

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Road Traffic Offences

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

To assess whether the risks and rewards remain with the lessor or lessee would involve consideration of factors such as whether:

- The lease transfers ownership of the asset to the lessee by the end of the lease term.
- The lease term is for the major part of the economic life of the asset, even if the title is not transferred.
- At the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset.
- The lessee has the option to buy the asset at the end of the contract period at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised.

S

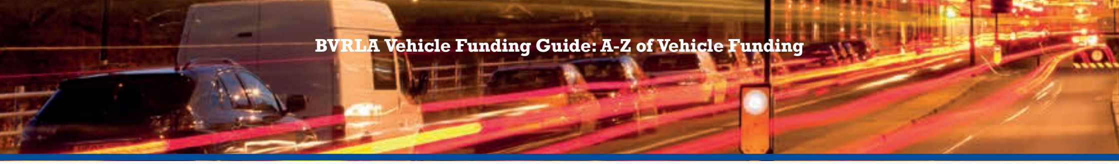
Salary Sacrifice
A salary sacrifice arrangement is an agreement between an employer and an employee to change the terms of the employment contract to reduce the employee's entitlement to cash pay. This sacrifice of cash entitlement is usually made in return for some form of non-cash benefit, such as a company car.

Sale and 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 contracted rental payments in advance and then dividing the balance payable by the contract length minus one month. This has the effect of reducing monthly payments.

SSAP 21
SSAP 21 is the Statement of Standard Accounting Practice that sets out the accounting treatment for leases under UK generally accepted accounting principles (GAAP) prior to the introduction of FRS 102, which is applicable for accounting periods starting on or after 1 January 2015. SSAP 21 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 equivalent lease accounting standard for those applying International Accounting Standards.

A-Z of Vehicle Funding continues on page 42



T

Terminal Pause

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

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 it is envisaged that title 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 and other tyre damage are generally not covered.

V

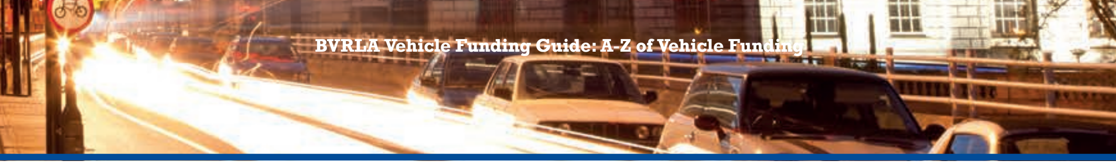
Value Added Tax (VAT)

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 (eg 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).

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 Excise Duty (VED) is renewed by the lessor in operating leases before the expiry of the previous VED. Normally the lessor is the registered keeper of the vehicle. With finance leases the responsibility for applying for VED renewals remains with the lessee.



W

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 because they are compensatory in nature. It is always important to check the precise terms of the contract hire agreement.

See Damage.

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