

## To lease or not to lease? That is the question

Times are tough for businesses and reducing the tax bill on motoring expenditure is vital for companies to stay competitive, says Certified Accountant, SHARON JOYCE from CerTax Accounting (Sandbach).



You're a business owner, money is tight and the time has come to change your car. The big question is – to lease or not to lease?

As car dealerships struggle, there are some fantastic bargains out there on leasing and purchasing cars. It pays to shop around, understand the tax implications and make the right choice.

Leasing a car is definitely worth considering as it can be cheaper in the long run due to the tax treatment of a lease hire. Opting for a lease can also mean a more prestige car sitting on your drive (Cars that hold their value are often cheaper to lease because lease payments are based on purchase price less resale value).

There are two main types of lease available:

- **Purchase-based lease** – In basic terms you are borrowing money to buy the vehicle so the vehicle is treated as an asset on your balance sheet, the financing is treated as a loan and repayments are split between an interest element (which is an expense on your profit and loss) and a capital repayment (which gradually pays off the loan) This lease attracts capital allowances as the car is considered to be your asset. There is no VAT on the monthly payments, however VAT may be charged on other fees associated with a purchase lease, so it's worth checking the small print carefully.

- **Rental-based lease** – These leases are based around NOT owning the vehicle so there is no asset on your balance sheet and no finance loan. With a rental lease you are paying a monthly rent to use the car for a specified period, the amount of 'rent' you pay can all be put through your profit and loss account as an expense. As a rental lease is considered to be a "service" there will be VAT charged on the monthly payments, however you can only claim back half of the 17.5% VAT.

You should also take into consideration when looking at leasing that if you choose a rental lease on an "expensive" vehicle (and the taxman considers £12,000 plus as expensive), you can only claim a portion of the rental costs against your profits.

Depending on your line of business and the type of vehicle you require, it may be useful to look at buying a commercial vehicle. HMRC produces a list of vehicles they consider to be commercial – where the load area is greater than the passenger area. The VAT on a commercial vehicle can be fully reclaimed and the excise duty is lower. However, you might want to look at fuel consumption when weighing up the costs and benefits.

If you have seasonal variations in workloads then short-term leasing may be suitable. Again, it is vital to shop around and consider all the pros and cons - there are now lease firms that look to be carbon neutral and one North West firm does this in an imaginative way by donating part of its turnover to local school environmental projects.

**And finally** here's a little known gem of a tax benefit is for employees using their own transport for business.

HMRC allows up to 40p per mile for the first 10,000 miles and 25p a mile thereafter. However, many companies do not pay up to these levels, but you can claim the difference back from HMRC as an allowable business expense and receive a tax rebate / increased personal allowance.



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