PEREGRINE FINANCE 21st Century financial solutions

Vehicle Finance Explained

What is Hire Purchase?

Hire Purchase is the traditional method of financing a vehicle with the vehicle becoming the property of the hirer at the end of the period like Contract Purchase, Lease Purchase and Personal Contract Purchase. The monthly payment is determined by the amount of deposit paid, the period of the contract and the sale price of the vehicle.

How Does Hire Purchase Work?

The loan itself is secured against the car or van. This will make obtaining finance easier than trying for an unsecured loan. This method of finance is normally cheaper than Lease Purchase (LP).

How Is Hire Purchase Accounted For?

You should bear in mind that monthly repayments will be higher than they would be during lease purchase and you will not own your vehicle until the last payment has been made. The loan provider could repossess your vehicle at any time if the payments are not kept up. In the event of the vehicle being sold before the end of the agreement you would still be required to pay the loan back in full.

Hire purchase - important points

There are some important points to keep in mind when considering hire purchase on a vehicle:

Hire Purchase requires a deposit and the remaining outstanding balance will be paid in monthly instalments over an agreed and set period of time.

You will not own the car or van until the final payment has been made. In the event that you are unable to make the payments only the car or van, not your house or possessions can be repossessed. This is due to hire purchase being secured against the car or van only.

The monthly payments may well be higher than they would be with other finance methods but it is likely that the overall sum of repayment will be lower.

Call, submit an enquiry form or email for more information

T: 0870 241 0262 E: info@peregrinefinance.co.uk **F:** 0870 241 7678 **www.**peregrinefinance.co.uk

P.O.Box 58, Green Hammerton, York, North Yorkshire, YO26 8WA

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Registered Office: 3 Longland Lane, Whixley, York, North Yorkshire, YO26 8BB.

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Vehicle Finance Explained

What is Finance Lease?

Finance Lease is a tax efficient option where you choose to pay either the entire cost of the vehicle, including interest charges, over an agreed lease period or opt to pay lower monthly rentals with a final payment based on the anticipated resale value of the vehicle.

How Does Finance Lease Work?

At the commencement of the contract, usage parameters for the vehicle are agreed, and assuming this does not vary, monthly payments and interest rates are fixed for the duration of the contract. Therefore you benefit though fixed costs but do take on the administration and operating risks. At the conclusion of the contract you can continue to operate the vehicle under a "peppercorn agreement" although you will at no time take ownership of the asset.

How Is Finance Lease Accounted For?

Although the ownership of the vehicle remains with the leasing company for the duration of the contract, the car does appear on your balance sheet with the capital element of the outstanding rentals acting as the subsequent liability.

The rentals paid can be offset against taxable profits, although a proportion of the payments relating to the excess value of the vehicle over and above £12000 are disallowed.

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What is Contract Hire?

Under Contract Hire, vehicles continue to be owned by the leasing company yet are hired to you for a set period of time and at a fixed monthly rate. This method of finance can be useful for companies wanting to free up credit lines or improve cash flow by implementing fixed cost fleet operation.

How Does Contract Hire Work?

The monthly rental charged is calculated based upon the cost of the vehicle, the contract period and the anticipated resale value. It is also takes into consideration the predicted mileage, service and maintenance costs, together with any additional services such as relief vehicles.

Under a Contract Hire agreement the funder retains ownership of the vehicle at all times and therefore continues to absorb the subsequent risks such as unforeseen running costs and uncertain resale values.

How Is Contract Hire Accounted For?

Rentals paid on vehicles under £12,000 are fully deductible against corporation tax. However, for higher priced vehicles only a proportion of the payments can be offset.

Where a vehicle has a partial private use then 50% of the VAT on rentals is recoverable, whereas the service and maintenance elements of the rental are fully recoverable.

Vehicles under Contract Hire are not recorded as assets on the balance sheet, thus improving company gearing ratios.

What is Lease Purchase?

Lease Purchase is a method of financing a vehicle, normally for either VAT or NON VAT registered businesses or companies. The monthly rental is determined by the cost of the vehicle, the period and the estimated future value of the vehicle, which is based on the proposed annual mileage.

How Does Lease Purchase Work?

A payment equivalent to the estimated future value is payable at the end of the contract, when the vehicle becomes the property of the lessee. Maintenance packages are often available, if required. Lease Purchase is a cheaper monthly alternative to Hire Purchase, the traditional method of financing, and is written on a hire purchase agreement with the protections afforded by the Consumer Credit Act.

Lease Purchase - Advantages & Disadvantages

What are the main advantages of using Lease Purchase?

- Lease Purchase requires only a small initial deposit and low monthly payments.
- Companies that choose this type of vehicle leasing contract are able to put the money that is held back into their company at an early stage.

What are the disadvantages of Lease Purchase?

- A balloon payment will need to be paid at the end of the agreed lease period. In some cases this may exceed the residual value of the car or van and companies need to be certain that they have finances available to make these balloon payments when they are due.
- VAT is only reclaimable if the vehicles are used only for business use.
- Due to loss of residual value and maintenance costs, the task of managing a fleet of lease-purchase vehicles requires expert handling.

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What is Personal Contract Hire?

Some companies are now looking at Employee Car Ownership (ECO) schemes as a viable alternative to regular funding methods. These schemes provide a mechanism for the driver to take personal ownership of their vehicle yet benefit from group buying power and tax efficiencies.

How Does Personal Contract Hire Work?

The car is financed through a Credit Sale Agreement between the driver and leasing company. The employer pays the driver a monthly allowance, which relates to the employee level and their choice of car. Taking this allowance together with the personal tax savings, as well as utilising Inland Revenue approved business mileage allowances, provides the driver with a net monthly budget.

The driver has greater choice as they can trade up or down from their current company car level and pay more or less per month as appropriate. The employer can benefit from a reduction in the gross cost of providing drivers with a vehicle. However this is strongly influenced by the make up of the fleet and in particular the number of business miles conducted by a driver. Generally speaking, drivers need to be in the 10,000+ business miles bracket for this to be an effective choice. Personal Contract Hire works in exactly the same way as Contract Hire but with the VAT included and is only available to individuals.

How Is Personal Contract Hire Accounted For?

As the foundation for ECO schemes is a direct contract between the leasing company and the driver, there are no corporate accounting regulations to adhere to.

If an employee receives any form of cash allowance, this is treated as salary from a tax and national insurance perspective. Mileage allowances can either be paid up to the Inland Revenue limit or drivers can make a claim through their regular tax return.

What is Sale and Hire Purchase Back?

This option enables you to release the capital tied up in vehicles you already own outright by transferring them to a Contract Hire or Leasing agreement.

How Does Sale and Leaseback Work?

Under a Sale & Lease Back arrangement you sell the vehicles to the leasing company for an agreed price and these same vehicles are seamlessly leased back to you, typically using a Contract Hire arrangement.

This enables you to switch to a more tax efficient method of funding whilst raising capital for use elsewhere within your business. As this is a paper only exercise you continue to have use of the vehicles throughout the transfer process and thus there is no driver inconvenience involved.

How Is Sale and Leaseback Accounted For?

Under a Contract Hire agreement, rentals paid on vehicles under £12,000 are fully deductible against corporation tax. However, for higher priced vehicles only a proportion of the payments can be offset.

Where a vehicle has a partial private use then 50% of the VAT on rentals is recoverable, whereas the service and maintenance elements of the rental are fully recoverable.

Vehicles under Contract Hire are not recorded on the balance sheet thus improving company gearing ratios.

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