The information detailed below is to assist you to determine what product best suits your needs, we offer the full range of products listed and do not recommend any in particular as they all have advantages & disadvantages based on your specific business and requirements. If in doubt you may want to discuss with your advisor or Accountant which funding method suits you best.

## Contract Hire

Contract Hire, sometimes referred to as an Operating Lease, is a long term rental agreement. Contracts range from 24 to 60 months and are tailored to the businesses requirements. The Contract Hire Company reclaims the VAT on the original purchase, which reduces your monthly rentals (which are + VAT). Contract Hire is a very popular choice for VAT registered companies as they can claim back 50% of the VAT on the finance element for cars and generally 100% for commercials (subject to no private use, no exempt turnover and not being on the Flat Rate VAT Scheme). On contracts with maintenance the VAT on the service element is 100% recoverable. One of the major benefits is that there are no disposal worries as the future value is underwritten by the leasing company. Another benefit of Contract Hire is that it is generally 'off Balance Sheet funding' (subject to legislation change) which means it can improve your gearing ratio (assets to borrowing ratio) and therefore possibly your borrowing ability in the future.

### Advantages

- Minimum capital expenditure
- Accurate monthly budgeting
- Improved cash flow
- Fixed interest rates
- Rentals can be offset against the businesses profits (subject to CO2 values)
- No vehicle disposal problems
- Reduced administration
- On-going advice and support
- Road Fund Licence provided (vehicle excise duty paid) for duration of contract
- Optional maintenance package
- Optional breakdown and recovery
- Optional replacement vehicle cover in event of a major breakdown
- Optional GAP insurance which provides cover for the shortfall between the outstanding finance and the insurance value if the vehicle is declared a write-off by your insurance company, or is stolen and not recovered

### Disadvantages

- Early termination can be expensive
- If you do more miles than stated in your contract you will be charged excess mileage for each mile over that stated in your contract
- You must look after the vehicle and return it in a well maintained condition otherwise you will be charged for any damage over and above that stated in the 'Fair Wear and Tear Guide'
- You must have fully comprehensive vehicle insurance
- You will never own the vehicle as there is no option to buy it

# Finance Lease

Finance Lease is a method of financing a vehicle that is usually favoured commercial vehicles and by VAT registered businesses. The business obtains use of the vehicle by paying a rental each month. The monthly rental is determined by the initial cost of the vehicle (excluding VAT), the period of the Finance Lease and the residual value (normally called the balloon payment), plus interest. Although you never take ownership, at the end of the Finance Lease contract a rental equivalent to the balloon payment is payable. Usually this means that the vehicle is sold and a proportion of the proceeds of the sale are returned to the lessee.

Most Finance Lease companies will offer a number of payment options to suit your cash flow. You can lower the monthly rental with a balloon payment at the end of the contract, or you can pay the entire cost in monthly rentals (normally referred to as a fully amortised Finance Lease), in which case you may be able to extend the Finance Lease with a secondary period rental (sometimes called a peppercorn rental).

## Advantages

- Minimum capital expenditure
- Accurate monthly budgeting
- A fixed interest rate is available on some contracts
- No damage recharges as you are responsible for disposal of the vehicle
- Finance lease is a popular choice for VAT registered companies as they can claim back 50% of the VAT on the finance element for cars and generally 100% for commercials (subject to no private use). On contracts with maintenance the VAT on the service element is 100% recoverable
- Rentals can be offset against the businesses profits
- Optional maintenance package
- Optional breakdown and recovery
- Optional replacement vehicle cover in event of a major breakdown

## Disadvantages

- You will never own the vehicle as you must sell it to a third party at the end of the agreement
- Operating risk associated with running the vehicle
- Interest rates can vary on some contract
- You must have fully comprehensive vehicle insurance

## Contract Purchase

Contract Purchase (CP) is a type of finance agreement for business customers looking to fund a new vehicle in a manageable way. The monthly payments are not subject to VAT, however if you do take out optional services then you will have to pay VAT on these. CP is ideal for any business that would like options at the end of its finance agreement. CP customers make an initial payment when they first take out the contract, then pay fixed monthly payments and finally have an Optional Final Payment (OFP) at the end at the end of the contract which is also referred to as the GFV (Guaranteed Future Value). You can trade-in your vehicle at a dealership and take another vehicle from them. If the trade-in value is larger than the OFP you will be able to use the difference towards a deposit on a new vehicle. Or, you can simply return the vehicle to the funder, as long as you have not exceeded the mileage and the vehicle is in an appropriate condition for its age there will be no charge. Finally, you can keep the vehicle either by paying the OFP in full or by re-financing it.

### Advantages

- Low initial payment
- Fixed monthly payments
- You may be able to refinance the OFP
- No depreciation concerns if you wish to walk away at the end
- Maintenance and servicing can be included
- Fixed OFP when you first take the contract out
- Cost effective

### Disadvantages

- At the end of the contract you will have to decide whether you wish to sell the vehicle, return it or keep it
- You must have fully comprehensive vehicle insurance

## Lease Purchase

Lease Purchase is for people who would like to own a vehicle but do not necessarily have the money to buy one immediately. It is ideal for non VAT registered customers who eventually wish to take ownership. It is a flexible product and it is possible to put down a larger initial payment, which in turn reduces your monthly payments. The monthly cost is worked out on the difference between the retail value and the depreciation value plus interest. The main difference between Lease Purchase and Contract Purchase is that instead of having the choice at the end of the contract to purchase the vehicle, which you would have with Contract Purchase, you have already entered into a contract to purchase the vehicle at the end of the contract with Lease Purchase. This contract is only for those who are absolutely sure that they want to take ownership of the vehicle at the end of the contractual period, and pay any balloon payments associated with the contract. Lease Purchase agreements typically run between 24 and 60 months, although the agreement can be settled at any time.

### Advantages

- Low initial payment
- Fixed mileage contract
- Ideal for non-VAT registered customers who want eventual ownership of the vehicle
- Effective budgeting with balloon facility, ownership of the vehicle is acquired once the balloon has been paid
- Monthly payments are not subject to VAT
- The vehicle is a company asset for balance sheet purposes
- Lease Purchase frees up your capital for other business uses

### Disadvantages

- The balloon payment must be paid for at the end of the contract
- The vehicle is yours once you have paid the balloon payment. In some cases the balloon can be higher than its value at the end of the contract
- You must have fully comprehensive vehicle insurance