



CONTRACT HIRE



PRODUCT GUIDE

CONTRACT HIRE



| Select Your Vehicle Type: | | | | | | | | | | | |
|--|--|---------------|------------------|-------------------|------------------------------|---------------|--------------------------|-------------------|----------|---------------|-------------------|
| CARS | | | | | | | | | | | |
| VANS | | | | | | | | | | | |
| | | Contract Hire | Salary Sacrifice | Contract Purchase | Structured Contract Purchase | Finance Lease | Structured Finance Lease | Employee Car Hire | Affinity | Hire Purchase | Outright Purchase |
| Off Customer Balance Sheet* | | ✓ | ✓ | ✗ | ✗ | ✗ | ✗ | ✓ | ✓ | ✗ | ✗ |
| Transfer of Risk and Reward to Lessor | | ✓ | ✓ | ✓ | ✓ | ✗ | ✗ | ✓ | ✓ | ✗ | ✗ |
| Utilise 3rd Party Funding | | ✓ | ✓ | ✓ | ✗ | ✓ | ✗ | ✓ | ✓ | ✓ | ✗ |
| VAT Recovery on Capital - Car 50% | | ✓ | ✓ | ✗ | ✗ | ✓ | ✓ | ✗ | ✗ | ✗ | ✗ |
| VAT Recovery (unless exclusive business use) | | ✓ | ✓ | ✗ | ✗ | ✓ | ✓ | ✗ | ✗ | ✗ | ✗ |
| VAT Recovery VEHICLE SERVICES | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✗ | ✗ | ✓ | ✓ |
| Capital Allowance Claims by Customer | | ✗ | ✗ | ✓ | ✓ | ✗ | ✗ | ✗ | ✗ | ✗ | ✗ |
| Lease Rental Restriction | | ✓ | ✓ | ✗ | ✗ | ✓ | ✓ | (NA) | (NA) | ✓ | ✓ |
| Employee Company Car Benefit in Kind (BIK) | | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✗ | ✗ | ✓ | ✓ |

Choosing the right fleet product for your business

You may be familiar with the term Contract Hire, but simply it's a form of operating lease in which the customer simply hires a car for a pre-determined period at a fixed monthly rental.

How does it work?

You have the right to use the vehicle over a pre agreed contract duration (usually 2 to 5 years) with pre set mileage parameters.

You do not take ownership of the vehicle at any time, ownership through hire period is retained by the lessor (Financing company) and all risks and rewards associated with the vehicle are retained by the lessor.

At the end of the contracted hire period the vehicle is returned to the lessor and subject to meeting pre agreed return conditions and mileage no further charges will be payable.

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Cashflow

The cost of financing the vehicle is spread over the contract period, your cashflow is improved as no large capital outlay (as with outright purchase) is required. It is usual for an initial payment to be made which is expressed as a multiple of the monthly lease rental (1 to 6 months is typical).

Cost Of Finance

This is fixed at the start of the contract helping you plan for the future with more certainty.

Budgeting

Monthly rentals are fixed for the duration of the contract helping you to manage costs over a long period.

Flexibility

Setting a fixed duration and mileage at the start of a long rental period can be difficult. Typically contract hire arrangements will allow you to re-evaluate your contracted mileage and / or duration to align more accurately to the parameters your business requires. Contract terms can then be adjusted accordingly. This will result in an amended rental charge to take account of your revised contract terms. The ability to rewrite the contract and the methodology used will be dependent on the lessor.

VAT Recovery

Up to 50% of the input VAT on the finance charge and 100% of the input VAT on any associated services or maintenance costs can be recovered. For vehicles that are used solely for business purposes with no private use whatsoever then up to 100% of the input VAT on the finance charge is recoverable.

For vans 100% of the input VAT can be recovered on both the finance charge and services / maintenance charges and this will not vary by financing method. The actual VAT recovery position will also be dependant on the VAT status of your organisation.

Residual Value Risk

Risk and reward associated with the value of the vehicle at the end of the contract is retained by the lessor, not you, protecting you the lessee from any adverse movements in the used vehicle market.

Tax Deductible Expense

If your organisation is in a tax paying position you are allowed to deduct finance rentals against profits in order to gain corporation tax relief. Under the corporation tax rules introduced in April 2013 you can deduct the full cost of finance rentals from taxable profits if the car emits 130g/km of CO2 or less; or 85% of the finance rental on vehicles with higher CO2 emissions. For all vehicle acquisition methods vehicle ancillary services and maintenance expenditures are fully allowable for corporation tax relief.

Vehicle Management and Administration

It is typical that the management and administration (in full or part) associated with this acquisition method is provided by a specialist Fleet management company / finance company, allowing you to free up your internal resources to focus on core business activities.

Early Termination Costs

There are varying formats for calculating charges in the event that a vehicle is returned prior to the agreed contract end date. In a simple form, early termination charges may be expressed as a percentage of outstanding rentals (typically 40 or 50%). In some circumstances these costs may reflect the actual market adjustment required to cover costs associated with the early return of the vehicle and may include additional costs levied by the lessor to recover their fixed service costs.

Excess Mileage and Damage Charges

When a fixed monthly rental is calculated upfront the services charged for and depreciation recovered in the finance rental is based of the contracted mileage and assumed return condition at the end of the contract. If your return mileage is greater than the contracted mileage or the return condition is below the industry standard for a vehicle of similar age and mileage than additional charges will be levied to compensate the financing company. Depending on the finance company this may include some form of incremental administrative charge or penalty..

Option To Own The Vehicle

Contract Hire is a form of operating lease and as such has no provision to allow you to purchase the vehicle.



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