



Our guide to Cars on Business Contract Hire



Car Business Contract Hire

Whether you're a lucky employee who gets to choose their next company car. Or you're a generous employer who is providing a company car for a staff member.

This guide will give you some valuable information regarding understanding how Business Contract Hire works, some of the ins and outs, whys and wherefores and how it can benefit an individual or a business.



What is Business Contract Hire?

When people are talking about leasing a vehicle they are most likely referring to Contract Hire. Luckily the basics are simple and because we are so good to you we have bullet pointed them below.

- Firstly, A Contract hire agreement is basically a way of using a vehicle for a designated amount of time in a similar way to renting one. Agreements are between 24 and 60 months with a particular mileage allowance. They are structured in a simple way as you pay the difference between the brand new vehicle cost, which is normally heavily discounted as you will see below and the residual value at the end of the agreement or in other words how much it's worth at the end. There are some charges included in there for obvious reasons as the funders need to make some money. But there isn't the confusing traditional interest rates or APRs to get your head around.
- Secondly, you are not going to own this vehicle. But that's the whole point. The fact you're not going to own it and it's going to be used as part of a business means certain tax advantages. But we will get into these later. See "The Tax Bit" section further down the page.
- Thirdly, in most cases it's one of, if not the cheapest way of getting into a brand new car. We work with suppliers and funders who negotiate deals with all the manufacturers for literally thousands of vehicles at a time. You can imagine that a business offering to purchase over a thousand cars a year will get a higher level of discount compared to you or me wandering into our local dealer looking to buy just one vehicle.
- Fourth, no residual risk. This basically means that no matter how much the vehicle depreciates over the term of the agreement, at the end you simply hand it back to the funder and walk away. And assuming you have stayed within the mileage and condition parameters, see "How the deal works" there will be absolutely nothing to pay.
- Fifth, it's so easy. And we're not just saying that, it really is. A contract hire agreement only has 2 or 3 key points to it. The Initial rental at the start, the monthly rentals in the middle and hand the car back at the end. More details of this are below, but that's basically it. Told you it was easy.
- Last bit. Be aware that all business contract hire figures will be quoted excluding VAT. More on this in the tax section below.

How the deal works.

So now you know the basics let's take you through how a Contract Hire agreement works.



First up. Qualification and Quoting.

Once you have found the car of interest a member of the team will discuss all your specific requirements with you. We call this qualification and will cover all things from your expected annual mileage and how long you want the vehicle for all the way through to how the car will be used and who is likely to be driving it. Plus a few other details too. This doesn't take long, only a couple of minutes but it allows us to fully understand each customer's needs and therefore recommend the most suitable type of funding for you.

We can then provide you a quote. The quote itself will include all the key elements of a contract hire agreement so let's go through these one by one.

Initial Rental.

Some people refer to this as the deposit. We try not to do this as technically this isn't correct. The initial rental is the first payment of the agreement and it will normally leave your account around 14 days after you have taken delivery. You choose what amount this will be at the quoting stage and you will have already discussed this with your sales exec during the qualification process. But usually it's based on a multiple of the monthly rental and would normally be 3, 6, or 9 times that of the monthly rental. Initial rentals of 1 or 12 times are also available. So for example you choose to take out a 3 year agreement at £300 per month, with a 3 month initial rental. Your Initial rental will be £900 followed by 35 rentals of £300 making up the 36 month term.

As mentioned above the total cost of the agreement will be the difference between the new vehicle price and the residual price at the end of the agreement. This is always pretty much the same whether you choose to make a smaller initial rental with a bigger monthly rental or a larger initial rental with smaller monthly rentals.

Think of it like a cake. The bigger the first slice the less is left over. The smaller the first slice the more that's left over. The cake is always the same size, the only difference is how you slice it up. It's just the same with a vehicle on contract hire. Pay more at the beginning or less at the beginning either way the total amount you pay will be almost identical. This means that you can structure the deal to suit you and your business without any complicated calculations regarding interest rate and worrying about paying more interest over a longer term.

Monthly rental.

This is even easier. The monthly rental is how much you will pay each month until the end of the agreement. Simple as that. It's a fixed amount taken by direct debit each and every month. Easy.

Term.

Another easy one. The term is simply how long the agreement lasts and therefore how long you will have the vehicle for. Contract hire agreements range between 24 months to 60 months, so 2 to 5 years. However most people stick to around 3 years. This is normally a nice balance of budget and keeping in a relatively new vehicle. Plus in most cases it means you're always under manufacturer's warranty for the vast majority of the time you have the vehicle.

Excess mileage.

Now this is something that had some bad press in the past. Most of it is pretty unfair and from people who don't really understand the leasing market place. Put simply the excess mileage charge is the amount you will be required to pay at the end of the agreement IF and only IF you have exceeded the stated mileage arranged at the start of the agreement. So for example, let's say you decide to set up a 3 year agreement where you expect to travel on average 10,000 miles per year. This is how your monthly rentals will be calculated. The difference between the new vehicle cost and how much the same vehicle will be worth in 3 years' time after doing 30,000 miles. So that's how much usage of the vehicle you're paying for. Now if you end up travelling 50,000 miles over that same 3 year period the residual value of the vehicle is now much lower and that difference hasn't been allowed for by a higher monthly rental. In other words you've had more use out of the vehicle than you have paid for. The 20,000 mile difference is the excess mileage and the excess mileage charge is the finance company's way of recovering the loss on the residual value. Excess mileage charges are at a set rate per mile and are usually very reasonable averaging around 7 to 15 pence per mile.



Maintenance.

All vehicles should be serviced as per the manufacturer's recommendation and leased vehicles are no different. Cars, Vans and Pickup also require other forms of maintenance and repairs, replacement tyres or brakes for example. Unfortunately this all comes at a cost. Now you can choose to pay for each of these things as and when they come about or you can take advantage of a maintenance contract and have everything included in one easy monthly rental covering the vehicle, maintenance, servicing and repairs. Quotes you receive from MW Vehicle Contracts will include both a rental where maintenance cover is included and a rental without this service and it's completely your choice which option you go with. However you may find that including maintenance cover works out as the cheapest option overall.

Fair wear and tear.

When it comes to acceptable damage to a vehicle and what's considered normal for a vehicle of a particular age often people see things differently. Anyone who has ever bought a second hand vehicle will be in agreement with this. The old "it's a used car what do you expect" line to try to explain away a massive dent or scratch down one side of the vehicle. Well once again when it comes to contract hire things are made much clearer and all the funders work to the same rules. The BVRLA (British Vehicle Rental and Leasing Association) Fair Wear and Tear Guide sets out clear rules about what is considered to be an acceptable condition of a vehicle at the point of it being handed back to the funder.

You can find a summary of this here and a full copy on the BVRLA website. Small everyday little dents and scratches should be fine, but more significant damage could result in repair bills after the vehicle has been returned. Although anything like this would be reported to you when the vehicle is collected and you would have the option of getting the work done yourself if you would prefer.

What else?

So now you understand all the ins and outs about the quotes and contract hire terminology at the start of the process. Great news. Now let's look into what happens during and at the end of the contract.

At this stage if you would like more details on the process of ordering a vehicle through us here at MW Vehicle Contracts please [click here](#) for our how to guide on Ordering your new vehicle.

During your agreement.

This bit couldn't be easier. All you have to do is enjoy your new car. Use it for what it does best, keep up the rental payments, keep it insured and make sure the car is serviced and maintained as it should be and you're all good. No different to any other way of funding a vehicle. Except with one advantage. The monthly rentals on contract hire include the Road Fund License for the entire duration of the agreement. Which is nice. Makes things much easier too.

The Tax Bit.

The first thing we should say here is that we are not accountants. We do not know your individual business or personal situations and nothing in this guide should be taken as tax or VAT advice. We would always recommend speaking to a qualified accountant to fully understand your business or personal taxation rights and commitments, what you can claim and what you can't.

Right, now that bits out the way let's look at some potential options you may have. Firstly leased vehicles are now classed as on balance sheet. However as we have already learned you will never take ownership of the vehicle and therefore it is still classed as a cost to the business. Much the same as a utility bill. This means that this cost can be offset against taxable profits. Meaning you pay less tax. Great News. Again we recommend you speak to an accountant in order to clarify this is possible in your own personal situation.

VAT.

More good news. If you are VAT registered you will be able to claim back 50% of the VAT on the rental payment for the vehicle. You may ask why it's 50% and not 100%. Well the government assumes that the vehicle will have some form of personal use. Even if that is just travelling to and from work. Therefore you benefit from this and in turn you can't get all the VAT back. If you have taken maintenance on the agreement you will always (based on the current rules) be able to claim back 100% of the VAT on the maintenance element of the rental. Once again though get that accountant on the phone to clarify your own position on claiming back VAT.



Benefit in Kind.

Or in other words, Company Car Tax. Sometimes this can be very expensive, sometimes very cheap or even nothing at all. If you're an employee and have a company car it's just something you're going to have to pay. But it still often works out a very cheap way of having a brand new car. Especially considering as an employee it will probably be the business which is paying for the maintenance and insurance of the car too. The actual amount you will pay is based on three things. The CO2 emissions of the car. The list price of the car including options and your income tax bracket. There are many BIK calculators on various websites which you can use to calculate the specifics for yourself and the car you're interested in. Or speak to a member of our team who will be able to help you out with this too.

Let's skip forward a few years.

You're in safe hands with MW Vehicle Contracts when you're coming to the end of your agreement. Firstly, we will have been in regular contact with you all the way through but especially when you're in the last 6 months of your deal. By now you will have been talking to your account manager about the various options so let's break it down.

Option one - I'll have another one please

This is by far the most popular option. Sending your old car back and getting a shiny new one. We take care of everything for you. We will arrange the collection of your old car and have that sent back to the funder. As mentioned as long as you're within your mileage and condition allowances then that simply ends the current agreement. This leaves you free to take out a new deal and enjoy all the benefits of Contract hire all over again. Only this time it's even easier as you know what to expect. Most of the time we can arrange for the old vehicle to be collected the same day as the new one arrives. Or we can arrange a day or two crossover in case you have any gear to move from one vehicle to another.

Option two - Keep it a little longer

There could be several reasons why you want to keep the vehicle a little longer. Waiting for a new vehicle to arrive, change within your business, changes to your own circumstances. Whatever it may be, once again we will arrange everything for you. Depending on the funder you're with there could be two options for keeping your current vehicle longer.

The first is called an informal extension. Not all funders will offer this but it basically means that we simply don't arrange for the vehicle to be returned. The contract will extend month by month with little to no changes to the rental although this does vary between funders but by this time you will have discussed this with your account manager. This is easy and convenient and we just arrange for the vehicle to go back at a time that suits. But be aware that as its name suggests this is an informal agreement and therefore the funder could request for the vehicle to be returned at any time during the informal extension. This is rare but you should bear this in mind when considering your options.

The other way a contract can be extended is by the way of a formal extension. This basically means you will get a new agreement for an additional 6 or 12 month term depending on which you choose. This way everything is agreed by the funder and your set for the next 6 or 12 months.

So there you go

From start to finish that's all the basics of Contracts Hire covered, hopefully this has been helpful and informative and you're now considering Contract hire as a viable way of getting your next car. Don't forget we help with every stage of the process. Give us a call on 016 2599548 or place an enquiry on the site.

Thank you for your time and we hope to hear from you soon.

MW Vehicle Contracts Team.

