



**Our guide to LCV's on  
Business Finance Lease**

## **LCV Finance Lease.**

When most people are talking about leasing they are probably referring to Contract Hire as opposed to Finance Lease. This is where you lease the vehicle for a given amount of years then hand the vehicle back at the end and walk away. And for many people this is fine, when they can easily predict mileage and are able to keep the van in good condition throughout the term. But not everyone is in this position. So if you're keen on taking advantage of the benefits of leasing but don't want to be tied to restrictions regarding mileage and condition which come with a Contract Hire deal then Finance Lease is the funding option for you. Now not many people understand Finance lease and even fewer people know how they or their business can really benefit from it. But not to worry, that's where we come in.

MW Vehicle Contracts has been trading for over 17 years and with the staff's combined motor trade experience of over 100 years, there isn't much we don't know about Finance Lease and how it can help our customers. The good and the bad, it's all here and we hope it helps you understand everything that bit more clearly.



## So what is Finance Lease?

Finance lease itself is actually pretty easy to understand and is made up of 3 main steps which we highlight in the “How the Deal Works” section. But first we need to cover the basics:

- Like any lease, a Finance Lease agreement is essentially a way of using a vehicle for a designated amount of time, usually between 2 and 5 years with a particular mileage allowance. However unlike a contract hire deal where you hand the vehicle back at the end of the agreement, with finance lease you will pay back the full amount for the vehicle and then sell the vehicle on to a third party. Now at this point you may be thinking, how is that different to Hire Purchase and what's the point? Well it's all about 3 things, potential tax savings, big vehicle discounts and flexibility, all of these things we will cover later on.
- Secondly, as you may have already guessed, you will never technically own this vehicle even though you will pay for the full amount. But that's the whole point of a lease and is again related to the tax bit we explain below.
- Thirdly, in most cases it's one of, if not the cheapest way of getting into a brand new van. 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 1000 commercial vehicles a year will get a higher level of discount compared to you or me wandering into our local dealer looking to buy just one van.
- Last bit; be aware that all Finance Lease figures will be quoted excluding VAT.

## **How the deal works.**

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



### **First up - Qualification and Quoting.**

Once you have found the vehicle 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 van 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 with a quote. The quote itself will include all the key elements of a Contract Hire agreement. 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 that 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.



## **Monthly rental.**

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. As mentioned, Finance Lease agreements range between 24 months to 60 months, so 2 to 5 years. People opting to take a Finance Lease deal tend to go for the longer agreements.

## **Final Rental or Balloon payment - End of Contract.**

Now this is where things get a little different. At this point you will have paid your Initial rental and ran the vehicle for several years paying your monthly rental. The final rental is effectively the same amount the funder expected the vehicle to be worth at the end of the agreement. For example, let's say you set up a 4 year agreement based on 10000 miles per year on a Ford Transit Custom. The balloon or final rental will be the amount the funder expects a 4 year old 40000 mile Ford Transit Custom to be worth. These figures are normally pretty accurate. So now all you do is sell the vehicle to any 3rd party. That could be a family member, friend, member of the public, a business etc. Here at MW Vehicle Contracts we often purchase vehicles from our customers at the end of their agreement. Now here's the good bit. At this stage you could make a little profit as everything you sell the vehicle for, over and above the balloon figure, but minus the proceeds of sale fee is money in your pocket. But be aware that any shortfall will have to be made up. What's the proceeds of sale fee? Let's have a look

## **Proceeds of sale fee.**

This is simply the amount the funder will charge when you sell the vehicle to a third party. It is normally calculated as a percentage of the sale amount usually around 2%. So basically what you sell the vehicle for minus 2% and the balloon figure is all yours. Good news!



## **Why Choose Finance Lease over Contract Hire?**

Contract Hire definitely has its place, especially when leasing a car. However the needs of the average van or pickup driver can be very different to that of a car driver. That's where Finance Lease can really work for you.

As we have already seen, at the end of the Finance Lease term the vehicle will NOT go back to the funder because you will be selling it to a third party. This means that there will be no excess mileage charges and there will be no damage or condition charges. Added to this, the final rental or balloon rental can be reduced to allow for condition. As part of the qualification process our sales team will ask you about how the vehicle is used, expected mileage etc. These things can often be difficult to predict. But we can make allowances for this by lowering that final rental. This basically means that we are building in a safety margin at the end of the contract in case the mileage is higher than anticipated or that the condition is worse than expected. The lower the final rental, the easier it is to achieve this amount at the point of sale and therefore clear the final rental amount meaning you're less likely to have any shortfall and there is even a good chance you could come out with a little profit. Our sales executives will be happy to explain this further and show how Finance Lease could work for your business.

### **The Tax Bit.**

The first thing we should say here is that we are not accountants. We don't 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 the 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 based on your own personal situation.

## VAT.

More good news. If you are VAT registered you will be able to claim back up to 100% of the VAT on the rental payment of any commercial vehicle - Van or Pickup. Please note this is up to 100% and depends on if the vehicle is used for personal use. 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.

## In Summary. . . .

Many businesses are forever evolving, changing with the times and striving to grow and expand. These goals often come with some uncertainty and not everything is predictable. These businesses can still take advantage of the benefits of leasing via Finance Lease. This is because it offers the opportunity to make the most of these advantages without the restrictions that come from Contract Hire. So if you're unsure about your annual mileage or you know that the vehicle could have a hard life and come out with a few battle scars then Finance Lease could well be the best option for you. Speak to a member of the team for all the details. They will be happy to fully explain all your options and help you choose the best way to fund your next commercial vehicle. Give us a call on **0116 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.

