

# Business Contract Hire

## A simple and cost effective way to fund any number of vehicles

Contract Hire is sometimes referred to as an Operating Lease. It is a long term rental agreement. Contracts can range from 24 to 60 months and are tailored to the businesses requirements. The Contract Hire Company reclaims the VAT on the original vehicle purchase, which therefore reduces your monthly rentals (which are plus VAT).

Contract Hire is a very popular choice for companies that are VAT registered, 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). For contracts including maintenance, the VAT on the service element is 100% recoverable.

One of the major benefits is that there is no disposal risk 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 outlay
- Accurate monthly budgetary control
- Improved cash flow
- Rentals can be offset against the businesses profits. Cars with a CO2 output above 110 g/km are currently subject to a 15% disallowance on the amount of the rental that can be claimed against the businesses taxation, for contract-hired cars with a CO2 output of 110 g/km or below, there is currently no disallowance.
- No vehicle disposal or maintenance risks
- Reduced administration
- Road Fund Licence (vehicle excise duty) is included for duration of contract
- Optional maintenance package, breakdown and recovery cover
- Optional replacement vehicle cover in event of a major breakdown

### Disadvantages:

- Early termination can be expensive
- If you cover more miles than stated in your contract you will be charged excess mileage costs 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

## Have a question about Business Contract Hire?

Call: **01484 866218**

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