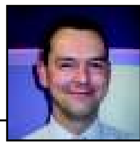
Simon Clarke



Leasing Or Buying

Many months ago I discussed the merits and drawbacks of the alternative methods of funding the vehicle you use in your business.

Over the last few months we've had many clients asking for advice in this area and, therefore, I thought it would be sensible to revisit it and look at the tax and operating implications of each method.

In essence, nothing has significantly changed since I last looked at this, apart from the expected introduction of the Annual Investment Allowance, which I wrote about last month.

Fundamentally, driving instructors utilise three methods of acquiring a car for use in the business and I shall briefly explain the principal tax implications of each method and, in turn, look at the real question that we are asked all the time - 'Which is the best method?'

Franchise

The first option is to operate with an established national, regional or local driving school, paying a weekly franchise fee that generally covers the provision of a car, its running costs and pupil introduction. This is probably the simplest method of trading and acquiring a vehicle, with the weekly cost being fully tax-deductible.

Rental

The second of these is rental, contract hire or leasing.

Again, this option allows for the weekly/monthly cost of the hire of the vehicle to be claimed as an allowable business expense. Depending on the type of contract you take out, you will either have additional motor expenses to pay for (e.g. servicing, replacement tyres etc.), or you will pay an increased rental charge inclusive of such costs. Either way, the costs will be allowable expenses for tax purposes.

Purchase

The last option is the traditional purchase. This is generally either outright purchase for cash, or on some form of finance deal such as hire purchase. The capital cost of the vehicle is not dealt with as a business expense in the same way as the other options. As discussed in the last issue, the capital cost attracts 'capital allowances' or, potentially, from April 08, they will fall into the Annual Investment Allowance regime. However, I will not repeat the details of those schemes here, suffice to say that these schemes give you tax allowances for the depreciation of the vehicle over its life in the business in a very structured way and, generally, with a greater weighting of allowances to earlier years of ownership.

The interest element of any loan used to finance such a purchase is an allowable business expense.

So Which Is The Best Option?

The million dollar question (mind you that would be an expensive motor)! There is no simple answer to this and what I always say to clients is 'you pays your money and you takes your choice'. Although I have not gone into any detail above, I hope you can see that with the franchising or rental options the cost is effectively a constant monthly charge and, hence, any tax relief accrues at a constant rate, month on month.

However, as I said above, capital allowances tend to be weighted more to the early years of ownership than the latter ones.

Therefore, you may well get a substantial tax benefit in the earlier years over the rental option but that reverses in later years. So to summarise, regardless of the method used, you get tax relief for the costs you incur, you just get it over a different timescale. Therefore, I would not generally advise anyone to choose one option over the others purely on tax grounds.

For me, the key issue is not 'tax' at all, it is a personal choice about how flexible each option is for your personal circumstances.

Franchises tend to have a relatively short get out clause in the event of a change of circumstances - you simply give notice and hand the car back.

Similarly, if you own the vehicle outright or through a finance scheme, you can simply sell the vehicle, pay off the finance (or at least most of it) and walk away. The interesting option is rental. In most cases you will have signed up for a specified period, typically 12 to 36 months. If your circumstances change and you no longer want or can afford the vehicle, you are generally stuck with the remaining contract to pay off, making it a very inflexible option.

The counter to this is that you can generally get a better spec car for a similar monthly outlay to the purchase option, or even pay less per month for the same spec car. You will also find that the major manufacturers often have very good lease deals for driving instructors.

Remember

If you are thinking of acquiring your first vehicle or changing your existing one, consider the following three points:

- Don't make tax the driving force in the decision. You will get tax relief whichever route you choose;
- Consider how flexible you need the chosen option to be;
- Change your vehicle on the basis of business need. If you are thinking of purchasing a new car each year, this will be a luxury. Bear in mind you need to fund 100% of the cost but, using current rates of tax and national insurance, you would only get tax relief equating to 30% of that cost. adi

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