A guide to van leasing, and the differences between contract hire and finance leasing

What is Van Leasing?

Van leasing is when you pay a monthly fee to drive a van of your choice. Think of it as renting, but typically for a longer period, usually 2-5 years. A lease is a long-term rental agreement between you and a funder that allows you to use the van for a set period of time at a fixed monthly price based on a pre-determined mileage allowance. You'll pay an initial rental at the beginning, a monthly fee for the term of your lease and hand your van back at the end. The initial rental is paid after delivery in most cases and is in increments of 3's. Usually finance companies will give 3, 6, and 9 as the options upfront.

What's the difference between a finance lease and contract hire?

Many people think all lease contracts are the same when there are two different choices you can opt for: a contract hire or a finance lease. With a finance lease, the lessee (customer) assumes the financial risk of the vehicle, paying for maintenance and if anything goes wrong. With contract hire, the lessor (funder) is liable for that risk.

Both forms of contracts have advantages and disadvantages which we'll explore more in this guide. We'll go into depth about what is the difference between a finance lease and contract hire so you can decide which is best for your business.

Finance Lease vs Contract Hire: Which one should you do?

What is Van Contract Hire?

Contract hire is a fixed-term contract. Through it, you pay a set monthly fee for the lease of an asset, such as a van. At the end of the agreement, you return the asset you've leased without paying anything more (subject to excess mileages or damage). The monthly fee usually covers road tax, an agreed mileage allowance as well as service and breakdown cover.

The amount to pay every month is determined through forecast depreciation, calculated based on the original cost of the vehicle, the mileage it's going to run and the length of the contract.

Advantages of contract hire	Disadvantages of contract hire
Financial peace of mind is the top benefit. The leasing company still owns the vehicle. They are liable for the financial risk of something going wrong with the vehicle, not you. In addition to that, you also don't have to shoulder any administrative burden. The cost of servicing, breakdown cover and tax can be included in the monthly fee.	One of the main is they offer you less control over your van, like having a set mileage limit, with agreed penalties if you go over. A contract lease also offers fewer long-term benefits. Under a contract lease, there's no option to own your van or buy it outright at the end of the contract. That means you're simply paying for the service of using and looking after an asset.

What is a van finance lease?

Finance leases were designed with specific occupations in mind. These include professions where there's a lot of practical use of the van, and therefore a higher likelihood of damage to the vehicle. This type of contract has been designed to give such workers and companies more flexibility over the asset. On the one hand, this means the lessee assumes more risk. On the other hand, there's more opportunity for the lessee.

Here's how:

With a finance lease, the lessee assumes the risk of the asset without owning it outright. That means the accounting method looks very different from a contract hire. When you take out a finance lease, you agree on an estimated residual value (calculated in the same way as a contract hire) with the lessor. You then pay monthly repayments along with a balloon payment at the end of the contract. In simple terms, if you get to the end of your contract and the residual value of the van turns out to be higher than the agreed residual value, you get to pocket the extra upon selling the van to an independent third party. If it's less, then you must cover the shortfall.

Advantages of finance lease	Disadvantages of a finance lease
Finance lease is a great option for a high milage commercial vehicle. Unlike contract hire, this type of lease offers a lot more flexibility. You can set the estimated mileage and can also 'settle' the contract early. In the case where you drive more than your anticipated mileage, you won't have to pay any penalties as this will be reflected in the value of the van. There is no official 'pence per mile' being tracked. Of course, the biggest win is that if you do less than your anticipated mileage and keep your vehicle in tip-top condition, it will be worth more at the end of the contract. As such, you'll get money back when you then sell the vehicle.	While there are many great things about finance leases, they come with the assumption of risk. That means that whilst you don't own the vehicle, you're ultimately responsible for what happens to it. If it gets damaged, then it's up to you to repair it. And if your van ends up in worse condition and with more miles clocked by the end of the contract, you'll be left out of pocket.

How are the fixed monthly payments calculated?

For every type of lease agreement, 4 items determine how the monthly payment is calculated.

1. Interest Rates

Behind the scenes, when you lease your van, you'll be doing a deal with one of the funders we have access to. The deals the funders offer will very much depend on the interest rates at the time. The good news is that even if interest rates increase between getting a quote and delivery of your van, your quote won't go up.

2. Residual Value

As well as your mileage and the length of your lease, what your van is estimated to be worth at the end of your term is another important factor when calculating your monthly payments. There are a range of things which will affect the estimated residual value including the lenders' experience on selling that van in the past, how many of that model they have committed to over a 3- month period and the perceived financial risk of that vehicle

3. Initial Rental

At the beginning of your lease, you'll pay an initial rental. This, alongside the length of the agreement, will affect how much your monthly payments will be. You can decide how much you want to pay up front based on how much you can afford. But remember, the more you pay upfront, the less you'll pay in the following months.

4. The Cost of The Vehicle

The lower the cost of your van, the lower the initial rental and monthly payments will be as long as it's not got a really low resale price.

What are the benefits of leasing?

1. **It's an affordable fixed monthly payment**

This is one of the key benefits of leasing. It allows you to stay on top of your monthly budget and keep your outgoings low by spreading your payments over time.

2. **Not having to deal with a depreciating asset**

Like almost all vehicles, vans depreciate over time. Contract Hire means you're not left with a used van to sell. You simply give the van back at the end of your contact & you can upgrade to a brand-new model - the van should still be returned in good order though.

3. **A range of extra savings**

You won't need the vehicle to have an MOT for the first 3 years. For vans, 100% of the lease payment amount is reclaimable against corporation tax (regardless of the vehicle's emissions band) and if VAT registered, your business can claim back 100% of VAT on car leasing costs every month if vehicle usage is 100% business or 50% mixed business-private usage. For vans, the vehicles' business usage directly equates to the VAT percentage you can reclaim (e.g. 90% business use = 90% VAT reclaimable). Your business can reclaim 100% of VAT on maintenance packages for a van (if the business is VAT registered).

Tax Implications

When leased as a Contract Hire vehicle, all rental payments are treated as a tax-deductible expense in the profit and loss accounts, with any VAT reclaimable (subject to VAT criteria being met).

If you choose Finance Lease, you can offset any interest charged against the company's profit, with the van listed as a fixed asset. The yearly depreciation can be claimed as an allowable deduction for tax purposes too.

With vans a set figure of £3600 as of 2022 and employee's personal tax bracket are all factors which go towards calculating the tax a driver will pay, when calculating BIK payable on a company van.

Businesses might be exempt from company van tax and in some cases employees from BIK taxation. If the vehicle is used only for business and the employee keeps a detailed mileage record and signs an agreement that the van had no private usage - this can be put forward to HMRC to evidence that its been used for 100% business use.

When considering a Pick-up, drivers must be aware that the vehicle must meet the following criteria or run the risk of the vehicle being deemed as a PLG and therefore attracting the usual 'car' rates of BIK. The below guidelines in the eyes of HMRC, company-payable van tax and employee-payable BIK only applies to vans, pick-up-trucks or light commercial vehicles (LCVs) must be:

- Primarily built and used for the conveyance of goods or burden
- Have a carrying capacity over 1000KG

Is everything leased new?

Our funders will usually only lease brand new vans and some up to 3 months old with delivery mileage.

How does delivery work and how quick can I have a vehicle?

Obviously, this depends on the vehicle you select, whether it's in stock and if you're having retro fitted accessories. If the van you choose is in stock and available, it can take as little as 2 weeks to be delivered. Factory orders will be subject to manufacturers guidelines. All deliveries are subject to paperwork being signed.

Road tax and Insurance

Road Tax is included as part of your monthly payments for contract hire agreement but are usually chargeable annually for finance lease. Insurance is not included and should be sourced by the lessee.

Getting a quote

Your Maxus dealer will be able to give you a quote via Rev Direct for both a finance lease or a contract hire depending on what suits you best.