STARTING A PRIVATE PRACTICE

Should I lease, rent or buy my next car?

Choosing what car to drive now you are in private practice can be hard enough. But should you lease it or buy it? Ian Tongue offers guidance

BMW 3-series: see 'real world example' on page 29

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WITH THE car market in heavy decline, now is a good time to change your vehicle, as many deals are available. These vary between manufacturers, but it is fair to say that almost every one of them has some form of discount or special offer.

Changing your vehicle is usually a significant purchase in one's life and should be researched carefully.

There are differing tax treatments depending on how the vehicle is funded and also the emissions of the vehicle now come into play.

I would never recommend a

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change of vehicle purely to obtain tax relief, as you must use the car on a day-to-day basis and, for many consultants and GPs with a private practice, having a nice car is one of the luxuries that make all the hard work worthwhile.

There are many different names for vehicle financing but, essentially, there are two main types of financing a car for individuals; buying or leasing (renting).

Buying

Under the buying category, there are many permutations, these include:

- Hire purchase (with or without balloon payment at the end);
- Personal loan (with or without balloon payment at the end);
- Personal contract purchase (PCP).

Hire purchase and personal loan arrangements commit you to buying the vehicle over an agreed period. The car is your property at the end and you are exposed to

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the full depreciation from the agreed purchase price.

PCP deals are available from most manufacturers and come with given names such as 'options' or 'freedom'. These are more flexible arrangements with a guaranteed future value set by the manufacturer after, say, three years.

These types of arrangement allow you to buy the car at the end or hand it back, and therefore the cost of these agreements depends upon the expected mileage set at the start of the agreement with a financial penalty for excessive mileage and poor vehicle condition.

These types of agreements are becoming very popular and, frequently, manufacturers will match contract hire deals with PCP products, so it is worth being armed with external contract hire rates when you visit the dealers.

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are not encouraged and therefore the amount of loan outstanding over the loan period is higher.

As a result of this, the annual percentage rate (APR) can be high and no doubt when you ask what the interest rate is, the dealer will quote a flat rate (about half APR), as this sounds much lower! But always be aware of the APR, as this is a benchmark against which other sources of finance can be prepared.

Clearly, the guaranteed future value of these arrangements is extremely important. If the car is not worth the final payment, handing it back will transfer the loss to the manufacturer.

However, it should be noted that many manufacturers are setting these final values low in the current climate, as they have been swamped with vehicles bought under PCP deals two or three years ago being handed back. If the final payment is less than the car's value, you will have 'equity' which often a manufacturer will transfer to another new vehicle.

The key advantages of PCP are:

- Option to purchase or hand vehicle back;
- Transfer some of the risk of excessive depreciation;
- Fixed payments;
- Treated as a purchase for tax purposes despite option to hand back;
- Good way of purchasing a new car every 2-4 years.

Contract hire

Contract hire is relatively straightforward and is basically long-term rental of a car that will never be yours. A rental rate is agreed at the start, depending on the length of rental, expected mileage and whether maintenance is included in the rentals.

As with PCP, financial penalties are levied for excess mileage and condition of the vehicle, such as dents.

The tax treatment is easier to understand than the buying options with less variation in the potential tax relief.

Reviewing contract hire portal sites can be really useful, as often there are excellent deals which, in many cases, would not even cover the depreciation of buying the vehicle.

The advantages of choosing a contract hire arrangement are:

- Vehicle not purchased;
- Fixed costs, provided condition maintained and mileage realistic;
- Full maintenance rates are available;
- Many deals available which are often heavily subsidised.

Tax treatment

Under the buying methods, a tax capital allowance is given based on emissions. As the asset is privately owned, a balancing allowance is available on disposal.

Under contract hire, the lease rentals are allowable for tax. However, if the vehicle emits more than 160g/km, there is a 15% restriction on the lease rentals.

Under both methods, a restriction is made for private use of the vehicle.

If you are trading through a limited company, your accountant will be able to discuss the differences in tax treatment with you.

Real-world example

In writing this article, I obtained quotes for contract hire and PCP for a popular BMW 3-Series. I assumed a three-year period, 40% business use, 10,000 miles a year and a non-maintenance contract hire lease. It is also assumed under the PCP agreement that the car is handed back at the end of the three-year term.

The tax relief available over the three-year term was within a few hundred pounds, but, crucially, the true cost was almost £3,000 more under the PCP deal advertised.

Any equity in the vehicle under the PCP option at the end of the agreement would cut this differential, as it can usually be transferred if you buy the same make again.

This real-world example highlights the importance of the deal rather than the tax treatment.

Scrappage scheme

Most doctors do not drive around in ten-year-old cars, perhaps with the exception of some classics. So this scheme is likely to be of limited use to them, but perhaps their spouse or children drive an older vehicle and this may be an opportunity to change their vehicle.

Provided that the car has been owned for more than a year and is registered on or before 31 August 1999, it should be entitled to a £2,000 allowance funded by the Government and manufacturer. Despite this incentive, there will, no doubt, be scope for further discounts. The full criteria for the scheme can be seen on the Government's scrappage scheme website at www/direct.gov.uk.

There are many methods of financing your new car. For the majority of vehicles, the tax savings relating to different financing methods are unlikely to be significant and therefore attention should be focused on the overall deal after available tax relief. The real-world example illustrates that you should not let the tax tail wag the dog! ■

Next month: Maximising your expenditure claims

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