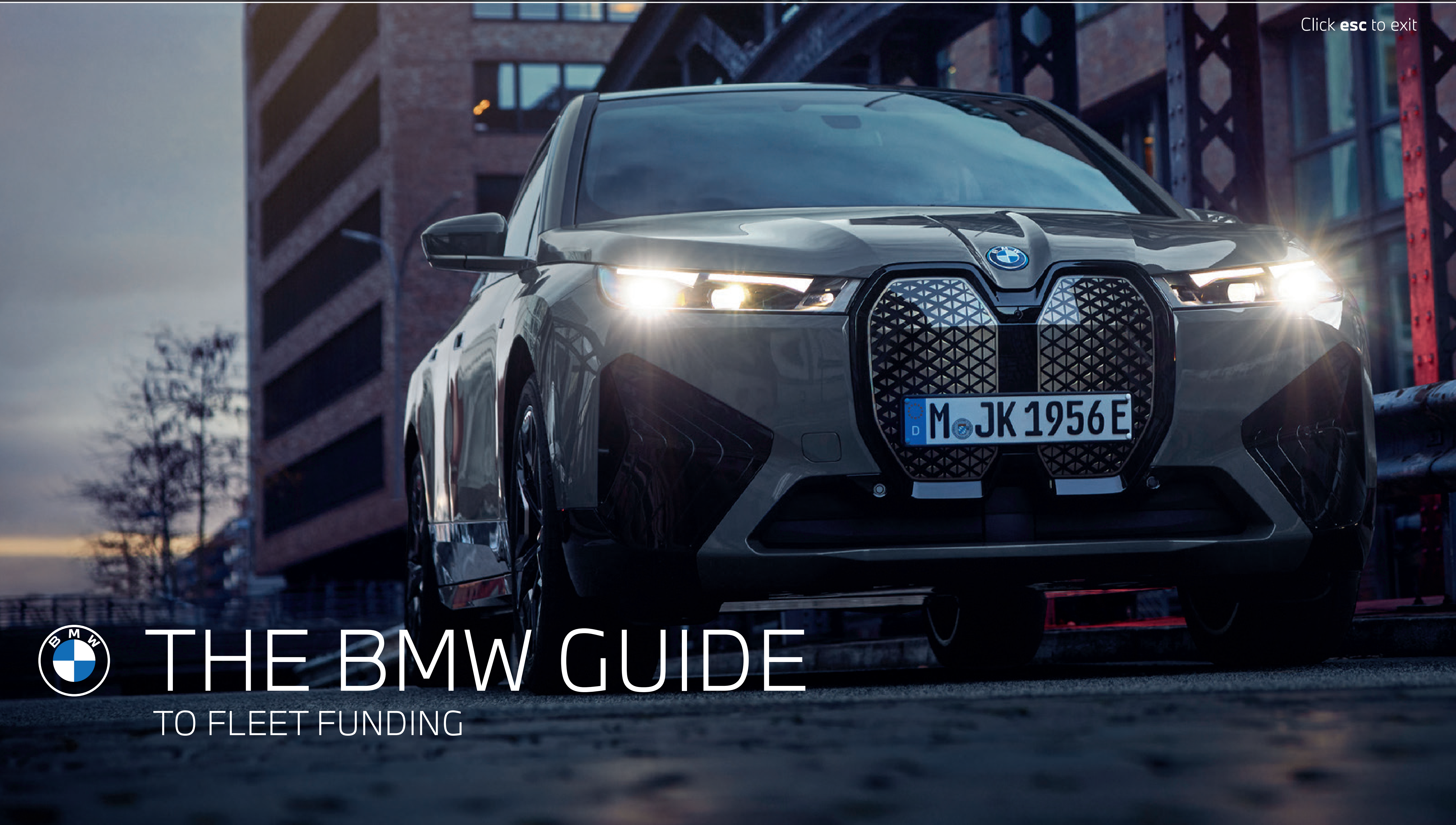
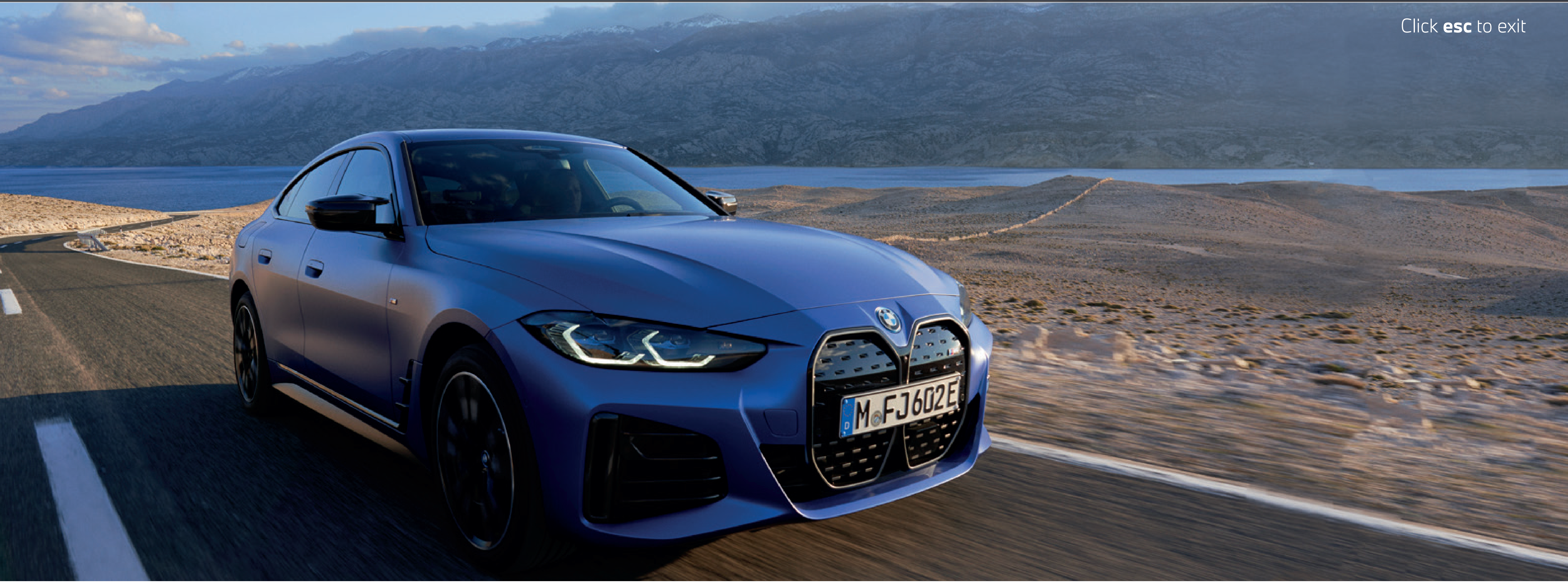


THE BMW GUIDE

TO FLEET FUNDING



INTRODUCTION

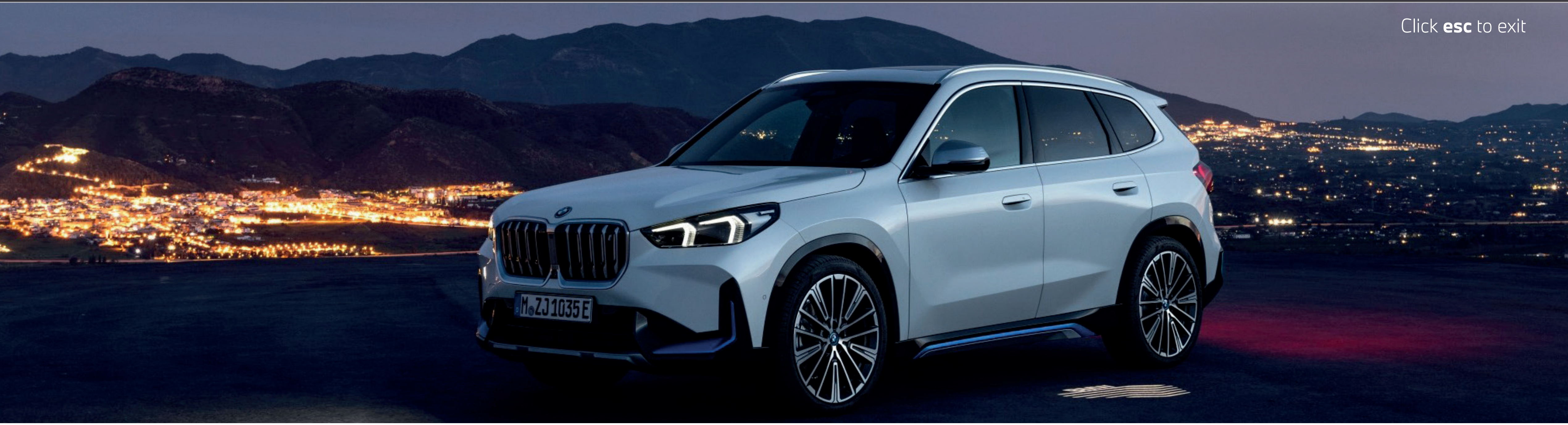
The way in which fleet vehicles are funded varies widely, but acquisition may be split into two main methods:

- Outright purchase
- Leasing over a fixed period

With outright purchase, the fleet funds the acquisition and operation of the vehicle and assumes all responsibility, including the residual value risk.

Leasing involves outsourcing the acquisition and, more often than not, the operational costs to a specialist provider such as a leasing company in return for a pre-agreed fixed monthly payment. In most cases, the leasing company retains ownership of the vehicle and assumes the residual value risk.

There are several variations of leasing that offer flexible solutions depending on a customer's circumstances and requirements, and these, together with the advantages and disadvantages of outright purchase are covered in this BMW Group Guide to Fleet Funding.



OUTRIGHT PURCHASE

Outright purchase, where a company funds the vehicle fleet from its own resources, historically has been the predominant funding method.

For a business with the cash to do this, and a fleet manager with the expertise to negotiate, purchase, maintain and insure the fleet, as well as manage disposal, this can still work well.

The benefits for larger fleets include substantial buying power, flexibility on acquisition and disposal and, in some cases, enhanced asset value. However, this can be a costly exercise. The business has many depreciating assets on its balance sheet and is exposed to residual value fluctuations at resale.

Added to that, outright purchase demands that you must be secure financially, with the liquidity to tie large amounts of capital up in the purchase of cars.

Whole-life costs

Whole-life costs are the total projected operating costs of a given make and model over a set period, usually expressed in pence-per-mile terms. These should form the basis of any company car decision, particularly when considering outright purchase.

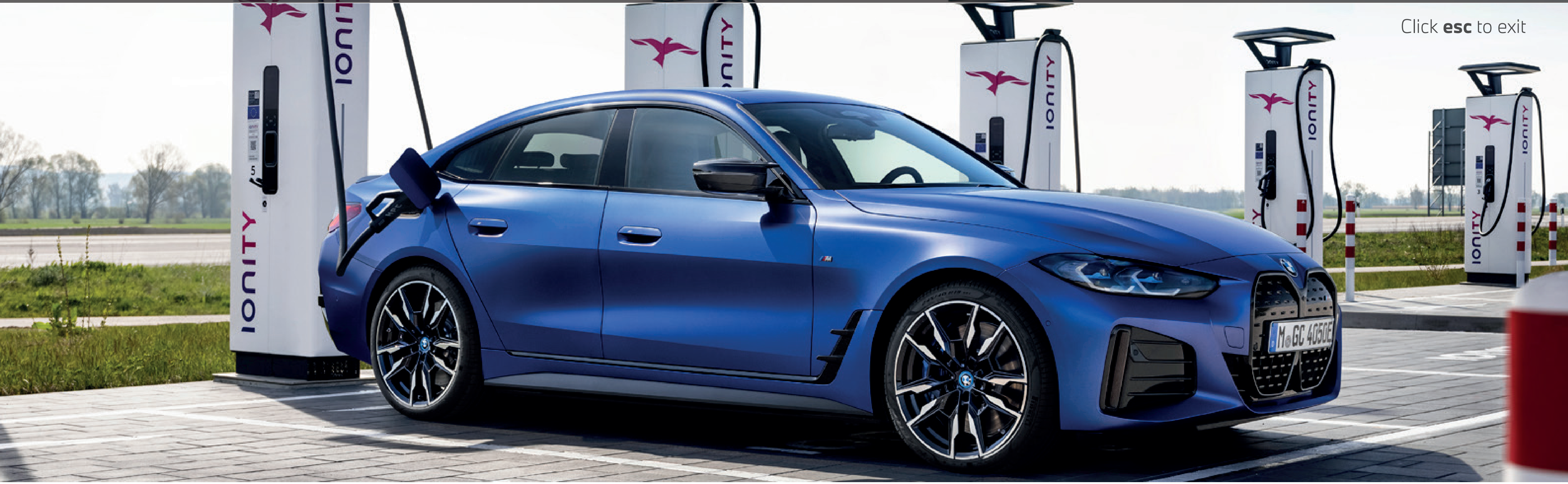
Comprising many facets of vehicle operation including depreciation, fuel costs and servicing, as well as funding charges, insurance and employers' National Insurance Contributions (NIC). Whole-life costs enable you to build a picture of a vehicle's operating costs that can be used to compare with other models. In turn, these comparisons will help set criteria for the most cost-effective choice list options.

Capital allowances

A capital allowance is the amount a company is able to offset against tax due to the depreciation of assets it has bought, working on the theory that the value of that asset, such as a car, decreases each year. This figure (the write-down allowance, or WDA) is calculated based on the car's CO_2 emissions and by deducting its value when it is sold from the cost when it was new. Attractive tax advantages are available for fleets purchasing cars outright especially if the cars are low emitters of CO_2.

A 100% first-year allowance (FYA) applies to cars with zero emissions of CO_2 while driving. New cars purchased outright with CO_2 emissions of 1-50g/km are eligible for a WDA of 18% a year in 2022/23, while those with higher emissions attract a WDA of 6% a year.

A 130% capital allowance 'super deduction' applies until 31 March 2023 in the first year to expenditure on new main pool items, such as vans and charging equipment but excluding company cars, giving tax cuts of up to 25p for every £1 invested.



LEASING

Often, businesses find it easier to create a company car choice list using set cost parameters – the basis of contract hire.

A monthly 'car allowance banding' is set by the employer in conjunction with an outsourced leasing company, with drivers selecting a car from a choice list of vehicles within their bandings, which conveniently can be tiered according to a driver's entitlement.

Predictable forecasting
For the employer, the advantages are clear because the vehicle residual value and disposal risks are eliminated as both are taken on by the leasing company and packaged as part of the monthly rental.

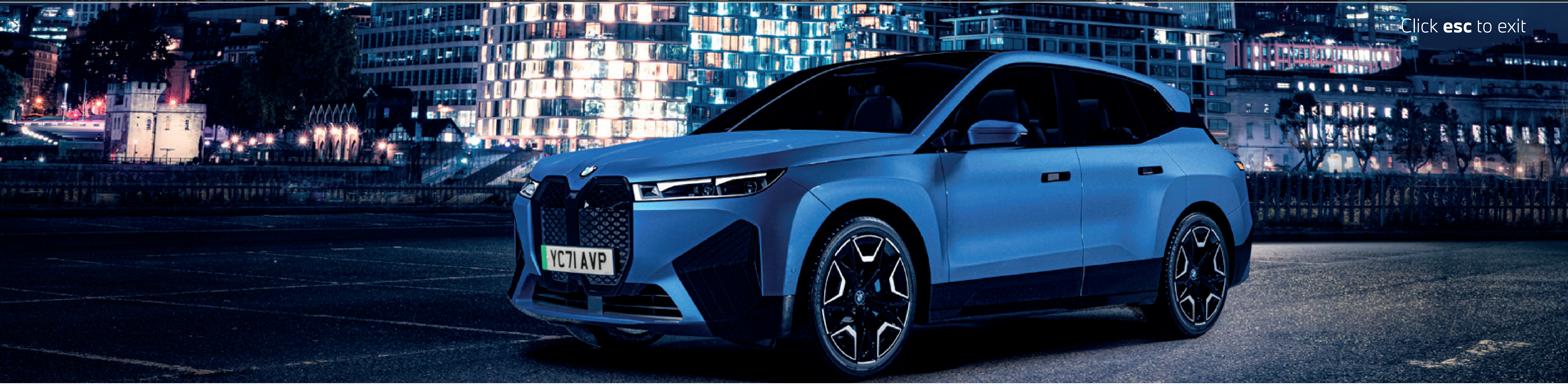
Leasing's fixed monthly cost structure allows for predictable and reliable forecasting, and because vehicles do not appear on the balance sheet, financial ratios can be improved and working capital freed up for other purposes. Furthermore, administration of the fleet is handed to the leasing company, leaving the employer to concentrate on its core business.

The convenience of contract hire means it has overtaken outright purchase as the most popular funding method in the UK, accounting for funding in over 60% of all company cars. However, early termination charges may apply to contracts ended before the full term has been reached. For example, if an employee leaves his/her position and the leased company car cannot be re-deployed to another employee.

Most businesses can claim back a proportion of the VAT charged on the finance element of a car's monthly rentals as well as all the VAT on servicing and maintenance costs.

Tax efficient
In 2022/23, leased cars with CO_2 emissions of 50g/km or less are eligible for 100% of their lease payments to be offset against tax. For cars with CO_2 emissions of 51g/km or more only 85% can be offset. Leasing companies are, however, exempt from the 100% first-year allowance (FYA).

In April 2021, the CO_2 emissions threshold used to determine the lease rental restriction costs of hiring business cars for more than 45 consecutive days was reduced to 50g/km.



PRACTICAL CONSIDERATIONS

Leasing: why your VAT position is important
Changes introduced in 1995 enabled VAT-registered companies to recover VAT in full when purchasing cars as long as they could demonstrate their company cars are used exclusively for business mileage.

For a leasing company this means that, as it owns the car but does not use it for private mileage (the lessee does) it can claim back the VAT at acquisition, together with its already strong volume-based buying power. The resulting savings should be reflected in favourable lease rates to customers.

For the lessee, the VAT on lease rentals for cars is 100% recoverable (subject to normal VAT rules) if the car is used entirely for business mileage. If there is any element of private mileage, however, only 50% of the VAT on the rentals is recoverable.

There are further VAT advantages – the VAT on expenses such as maintenance and repair incurred by a business on a leased car is 100% recoverable. If contract hire charges include maintenance and other services, the 50% restriction to VAT recovery applies only to the 'basic rental' element of the charge.

A basic rental charge usually includes elements such as depreciation, funding costs, VED, overheads, profit and the cost of options or accessories.

'Cash for car': should I consider the 'grey fleet'?
Paying employees a cash allowance in lieu of a company car allows them to choose their own car using employers' money, on which they pay income tax and national insurance. Legislative changes concerning duty of care, however, increasingly have made the practice less attractive as it is now the fleet rather than the individual that bears full responsibility for cars driven on company business.

If the fleet does not own or have control over an employee's car can you be certain, for example, that drivers will choose a car that is suitable for purpose, ensure that it is properly insured for business use, adhere to maintenance schedules for safety and roadworthiness and fit with the company's desired image when travelling on business?

Drivers may see personal choice as more important than a rigid company car policy, but 'grey fleet' vehicles present significant problems for employers that can be easily avoided.

Further information: whole-life costs
Many independent specialists provide vehicle whole-life cost illustrations using a variety of criteria. These include:

- AutoTrader Solutions – click **here** for further information.
- CAP HPI – click **here** for further information.
- International Decision Systems – click **here** for further information.
- Glass – click **here** for further information.

Click **esc** to exit

FLEET FUNDING METHOD COMPARISONS

Scheme	Outright purchase	Contract hire	Finance lease
Vehicle owner	Fleet	Leasing company	Leasing company
Is car on or off fleet's balance sheet?	On	Off	On
Does the fleet take the RV risk?	Yes	No	Yes
Are there mileage/ wear limitations?	No	Yes	No
Advantages	> The company retains control of the fleet and is not locked into contracts, with any profit at disposal retained. > A 100% first-year capital allowance (FYA) applies to cars with zero CO_2 emissions while driving. A write-down allowance (WDA) of 18% a year applies to cars with CO_2 emissions of 1-50g/km, while those with CO_2 emissions of 51g/km or more attract a WDA of 6% a year. > Zero-emission while driving electric vans are eligible for a 100% FYA until 31 March 2025, provided the Government Plug-in Grant has not also been claimed. All other vans are subject to an 18% allowance. > For VAT-registered companies, 100% of the VAT on service and maintenance costs can be reclaimed. > A 130% capital allowance 'super deduction' applies until 31 March 2023 to expenditure in the first year on new main pool items, such as vans and charging equipment but excluding company cars, allowing tax cuts of up to 25p for every £1 invested.	> Little to no risk for the fleet as the residual value and maintenance risk is passed to the leasing company. > Low initial outlay – typically three rentals in advance. > Fixed outgoings make for easy, reliable budgeting. > The fleet should benefit from the supplier's ability to recover VAT on the vehicle purchase price. > In 2022/23, for cars with CO_2 emissions of 50g/km or less, fleets can offset 100% of the lease payments against tax, while cars with CO_2 emissions of 51g/km or more are eligible for 85% of their lease payments to be offset. > For VAT-registered companies, VAT can be reclaimed by the fleet on the finance element of the lease, subject to a 50% restriction where private use occurs. > For VAT-registered companies, 100% of the VAT on service and maintenance costs can be reclaimed. > Administration burden is handed to the third party.	> Any profit at disposal is retained by the fleet. > Payment patterns can be structured to suit the business's needs. > Includes final balloon payment which reduces monthly costs. > Provides additional credit line. > In 2022/23, for cars with CO_2 emissions of 50g/km or less, fleets can offset 100% of the lease payments against tax, while cars with CO_2 emissions of 51g/km or more are eligible for 85% of their lease payments to be offset. > For VAT-registered companies, VAT can be reclaimed by the fleet on the finance element of the lease, subject to a 50% restriction where private use occurs. > For VAT-registered companies, 100% of the VAT on service and maintenance costs can be reclaimed.
Disadvantages	> Limited buying power compared with a leasing company. > The fleet is unable to reclaim full VAT on the purchase price unless cars are used solely for business mileage. > The fleet is exposed to the full residual value risk. > Administration burden lies with the fleet. > The fleet takes the risk for unexpected repair costs. > Ties up capital that could be used elsewhere within the business.	> Early termination and excess mileage costs give inflexibility, with a fixed term contract. > Unsuitable for unpredictable mileage fleets as excess mileage penalties can be expensive. > The fleet does not own the vehicle so cannot benefit from potential residual value rewards. > Additional VAT costs for non-VAT-registered or partially VAT-exempt companies.	> The fleet assumes the administration burden and is exposed to risks of ownership. > The fleet is liable for unexpected maintenance, repair and potential residual value losses. > Sale proceeds may not match final balloon payment. > Additional VAT costs for non-VAT-registered or partially VAT-exempt companies. > Vehicles are on-balance sheet which may inhibit further borrowing.

Next page, click **here** >

FLEET FUNDING METHOD COMPARISONS (CONTINUED)

Scheme	Hire purchase (or lease purchase)	Contract purchase	Salary sacrifice
Vehicle owner	Fleet, for tax and accounting purposes	Fleet	Leasing company
Is car on or off fleet's balance sheet?	On	On	Off
Does the fleet take the RV risk?	Yes	No	No
Are there mileage/ wear limitations?	No	No if fleet pays balloon at end, otherwise yes	Yes
Advantages	> Any profit at disposal is retained by the fleet. > Interest element of the repayments is offset against tax in line with accounting treatment. > Provides additional credit line. > Vehicle depreciation can be written off against profits. > A 100% first-year capital allowance (FYA) applies to cars with zero CO_2 emissions while driving. A write-down allowance (WDA) of 18% a year applies to cars with CO_2 emissions of 1-50g/km, while those with CO_2 emissions of 51g/km or more attract a WDA of 6% a year. > Zero-emission while driving electric vans are eligible for a 100% FYA. All other vans are subject to an 18% allowance. > For VAT-registered businesses, 100% of the VAT on service and maintenance costs can be reclaimed.	> Combines tax advantages of outright purchase with operational benefits of contract hire. > No residual value risk as this is guaranteed by the finance company. > A 100% first-year capital allowance (FYA) applies to cars with zero CO_2 emissions while driving. A write-down allowance (WDA) of 18% a year applies to cars with CO_2 emissions of 1-50g/km, while those with CO_2 emissions of 51g/km or more attract a WDA of 6% a year. > Zero-emission while driving electric vans are eligible for a 100% FYA. All other vans are subject to an 18% allowance. > Efficient for non-VAT registered companies as VAT is not payable on rental payments.	> Potential tax and national insurance savings for drivers and company if operated efficiently. > Driver pays BIK tax but receives maintained, taxed and insured car at rates that can be lower than private funding methods and in return for a single monthly charge taken from pre-tax salary. > Tax and national insurance-efficient for the employer. > Worthwhile staff benefit with little or no input from employer as administration is handled by outsourced leasing company. > Reduces 'grey fleet' risks and potentially enhances fleet's 'green' credentials. > The employee benefits from supplier buying power. > Particularly attractive for employees choosing an ultra-low emission or zero-emission car as BIK tax is significantly reduced. For new cars with CO_2 emissions of 0-50g/km and a minimum all-electric range of 130 miles, the BIK tax rate is set at 2% in 2022/23, where it remains frozen until 2024/25.
Disadvantages	> Potentially, a large deposit is required. > Administration burden lies with the fleet. > The fleet is exposed to the full residual value risk. > The fleet takes the risk for unexpected repair costs. > Vehicles are on-balance sheet which may inhibit further borrowing.	> Fleets can reclaim VAT on the capital cost if cars are used only for business mileage. > Contracts include use/wear limitations. > Vehicles are on-balance sheet which may inhibit further borrowing.	> Driver 'sacrifices' part of pensionable salary. > Not suitable for employers with high staff turnover as early redemption charges can be costly. > Contracts include use/wear limitations.

FLEET FUNDING METHOD COMPARISONS (CONTINUED)

Scheme	Sale and leaseback	Employee car ownership scheme (ECOS)
Vehicle owner	Leasing company	Leasing company
Is car on or off fleet's balance sheet?	Off	Off
Does the fleet take the RV risk?	No	No
Are there mileage/ wear limitations?	Yes	Yes
Advantages	> Releases capital tied up in outright purchased fleet. > Removes vehicles from the balance sheet, improving financial ratios. > Removes RV/maintenance risk and cuts administration. > Potentially, the fleet benefits from the supplier's buying power.	> Removal of employee BIK tax. > Tax and NI savings for employer and (potentially) employee. > All the benefits of contract hire but with overall tax savings if properly set up.
Disadvantages	> Careful negotiation needed with the leasing company to agree a resale value for the fleet. > Contracts include use/wear limitations.	> Complex to set up and run, though leasing company takes on most of the administration. > Requires thorough investigation, analysis and external advice to be set up properly. > Potential HMRC problems if set up incorrectly. > Contracts include use/wear limitations.

< Previous page, click **here**