Finance Lease vs Contract Hire

Whether it's a fleet of vans for your delivery service or a luxury car for your executive team, deciding between a **finance lease** and **contract hire** agreement can have significant implications for your company's cash flow and asset management.

This decision isn't just about selecting a brand-new vehicle; it touches upon a complex web of intertwining factors including monthly repayments, taxation benefits, and the much-needed **flexibility** in contract durations for businesses of all sizes.

At Crusader Vans, we understand that you cannot be entirely comfortable with any business decision including moving forward with a leasing company, unless you fully comprehend all its facets.

So let's unpack the agreement options your business can pursue when considering **van finance.**



It's All About the Fundamentals

With a finance lease agreement, you're stepping into a commitment where the van becomes a company asset, albeit without outright ownership.

If your business requires a customisable solution where you have more control and are ready to assume the more risk associated with your next van, this might be the avenue for you.

Conversely, contract hire offers a straightforward approach where the **leasing company retains ownership**, leaving you free from the concerns of a depreciating asset and unpredictable maintenance pay, all wrapped up in a fixed monthly fee your company is obliged to pay to the finance company.

The Key Difference?

The difference between finance lease vs contract hire is not merely in the monthly fee you pay; it encapsulates the overall approach of your **finance lease agreements.**

As a lessee, your choice determines whether you treat vehicles as assets to leverage or commodities to utilise within your operations.

A lessor or finance company offers tailored solutions to meet an array of your commercial needs. Therefore, understanding how each option aligns with your leading requirements, from the treatment of vans and cars as company assets to the kind of relationship you maintain with your lessor, is a pivotal step in your **finance leasing plans.**

Understanding Finance Lease and Contract Hires

When you're exploring finance solutions for your new van, the first step should always be untangling the complexities around finance lease and contract hire.

Here, we'll dissect these options, equipping you with the knowledge to select a **financial path** that aligns seamlessly with your business needs and commercial objectives.

Finance Lease Explained

Finance leasing is a popular financing approach, designed to grant you the use of a commercial vehicle **without shouldering the full responsibilities of ownership.**

This finance lease agreement obliges you to make **monthly payments** over an established lease term. When the term concludes, a final balloon payment based on the agreed residual value of the vehicle may be required.

This leasing method is exceptionally practical for an **excess-mileage commercial vehicle** and those seeking the financial benefit associated with managing an asset's maintenance costs and cash flow.

Advantages and Disadvantages of a Finance Lease

Let's break down the pros and cons of a finance lease.

Pros

- Flexible leasing terms, which can adapt to your estimated lower mileage and practical use.
- Potential to gain from the vehicle resale value, as sale proceeds can exceed the agreed value.
- Monthly payments are often tax deductible, mitigating your taxable profits.
- Risk assumption might be a strategic choice for businesses with higher need for durable options.

Cons:

- You are tasked with vehicle asset management, bearing the risk of depreciation and any damage responsibility.
- Maintenance costs are on your plate, which could influence your company's cash flow and financial risk profile.
- While monthly rental fees are fixed, exceeding the remaining value at the lease term's end might demand more money.

What is Business Contract Hire?

Simply put, it's akin to a long-term rental solution. You secure a new van by paying an initial deposit, followed by low monthly payments that include tax, maintenance cover, and breakdown cover.

This option is particularly advantageous for businesses seeking a fixed-cost approach with less concern about the vehicle's residual value at the end of the lease.

Pros and Cons of Contract Hire for Businesses

Understanding your company's long-term objectives, from the perspective of asset management to the decision of whether or not to assume the financial risk of acquiring a vehicle, is going to prove fruitful in the long run.

A finance lease may appeal to those with **high estimated mileage needs** and the **capacity to manage a commercial vehicle fleet.**

In contrast, business contract hire can provide a **risk-free solution** for companies prioritising attaining a vehicle with **regular monthly payments** without concerns for the residual value of a van post-lease agreement, with room for consideration to sell the car or van that had been acquired.

Whichever vehicle you choose to pursue your path, ensuring it aligns with your operational model and financial goals is paramount.

Pros

- Fixed monthly repayments, which can aid in precise budgeting and cash flow planning.
- Maintenance costs are typically included, reducing the administrative burden.
- Flexible end-of-contract ownership or vehicle resale with a reasonable value.
- Tax benefits for VAT-registered entities, as rentals are often tax deductible.

Cons

- Annual mileage limitations may incur excess mileage charges if breached.
- Early termination of the fixed contract term could lead to additional fees.
- No equity accrued in the vehicle, despite monthly rental costs.
- Return conditions require you to maintain the leasing company's standards, or face penalties otherwise.

Finance Lease vs Contract Hire

When evaluating vehicle finance lease vs contract hire, it's essential to acknowledge the **key differences** that will influence your vehicle leasing decision.

A **finance lease** provides an option for asset management with potential financial recovery at the end of the agreement, offering the chance to **gain equity** in the van.

Conversely, a contract hire leans towards straightforward **long-term rental** with the obligation to pay fixed monthly costs, although it lacks the potential for vehicle equity build-up.

What About Taxes?

Understanding the governmental financial tax implications of each choice will impact your company's **balance sheet** differently.

With a van finance lease, depreciation in pay is a factor, yet it comes with **notable tax benefits** and the possibility of profit if the residual value of the van is managed effectively.

Contract hire, while eliminating concerns about depreciation, may include car mileage limits that, if exceeded, could result in additional charges to pay in the form of **mileage penalties**.

Those opting for a van finance lease should be prepared for the possibility of a **balloon payment** at the end of the lease, which provides financial flexibility but also brings an element of financial risk.

On the flip side, month-by-month payments for contract hire are usually consistent and can be easier to budget for, particularly for **VAT-registered entities** able to reclaim VAT on their van payments. This attribute may also be significant for businesses focusing strictly on operating lease agreements.

Important Concept: What is a Balloon Payment?

A balloon payment is essentially a hefty lump sum you pay at the end of a loan term. It's like the grand finale of your payment schedule, typically used in car loans or mortgages.

This setup allows you to enjoy lower monthly payments throughout the loan's life, but it means you'll need to square up with a larger final payment.

Finance Lease vs Contract Hire: The Ultimate Comparison

While a **finance lease** might seem appealing for its potential to yield returns post-leasing, it is accompanied by greater financial risks.

Contract hire, offering a more prescriptive yet possibly more predictable path, could alleviate concerns around asset management. Your decision for business leasing will hinge on both your current financial capabilities and your projected operational trajectory.

Finance Lease	Contact Hire
Potential for equity in vehicle	No ownership rights, no equity gain
Risk of depreciation falls on lessee	No depreciation worries, vehicle simply returned
Monthly payment can change, depending on balloon payment	Fixed monthly rental throughout the entire lease term
May offer tax benefits from leasing as a business expense	Monthly rentals can be offset against taxable profits
Mileage limits may be more flexible or negotiable	Set mileage limits with potential excess fees
Good for businesses with high vehicle use and less concern with mileage	Ideal for companies seeking a predictable leasing model with maintenance included

Making the Informed Decision for Your Business

When it's time to make a decision and you're at a crossroads of **finance lease vs contract hire**, the path you select can dramatically steer your business's financial and operational journey, taking into account the additional importance of selecting finance companies that have your company's best interest at heart.

A **finance lease agreement** positions you in the driver's seat of potential owner status, offering a cost-effective option for businesses that clock up extensive mileage on their commercial vehicles. Your savvy navigation through lease terms could lead to a worthy addition to your company assets, coupled with appealing tax benefits.

However, remember this route involves a closer relationship with financial risk and a more comprehensive approach to financial planning.

On the flip side of the coin lies **business contract hire**, a beacon of predictability, sparing you from the bumps of vehicle depreciation. Meticulously planned, fixed contract durations safeguard you against fluctuating costs, with VAT-registered entities benefiting from significant tax reductions.

Should your strategy favour simplicity and a brand new van always at your service without the burden of ownership, this might be your calling. Just be mindful of the termination policies, lest they should curveball your budgeting at the end of the lease.

The Final Say

The road to success isn't one-size-fits-all; it’s as unique as your needs. Align your choice with **flexible contract durations** and a thorough assessment of both options.

Your eye on the long-term horizon and your feet firmly on the ground of present-day realities will guide your enterprise toward a tailored and strategic financing solution.

Let's not forget, that the goal is not just to keep the engine running but to do so in the most financially and operationally efficient way possible. This is where Crusader Vans deals come in, always able to provide you with the advice that is most capable of optimising your operations, and genuinely driving the growth you've always imagined for your brand.

Frequently Asked Questions

If you have more uncertainties regarding finance lease and contract hire, you're not alone. Check out the most commonly asked questions in the world of van finance leasing.

What exactly is a finance lease and how does it work?

A finance lease is a type of lease agreement where the lessee (business or individual) selects a new vehicle and makes regular monthly repayments for its use. At the end of the term, there is usually a final balloon payment based on the residual value of the vehicle.

What are the main advantages and disadvantages of a finance lease?

Finance leases offer the potential for profit if the resale value is higher than the balloon payment, flexible terms, and the ability to use the van as needed. However, they come with risks such as being responsible for the vehicle's condition and market value, potential negative equity, and administrative burden.

Can you explain what business contract hire is?

Business contract hire is akin to renting a van for business use, where the company pays a fixed monthly rental over a set period, including maintenance and service costs within a specified annual mileage.

Essentially, the company never owns the van and returns it at the end of the agreement.

What are the pros and cons of contract hire for businesses?

Contract hire offers predictable monthly costs, maintenance cover, VAT benefits for some businesses, and avoidance of depreciation risks. On the downside, it includes mileage restrictions with excess charges, no potential for profit from the vehicle's resale, and costs associated with early termination or vehicle damage upon return.