WHETHER TO LEASE OR BUY A NEW CAR IN YOUR COMPANY

From time to time we get a call into the office asking whether a client should buy an Alfa Romeo or a Volvo ... or something like that. We aren't motoring correspondents and cars are very personal things for most people, but we can explain the tax differences.

Let's be clear that as a Director you will be taxed on having personal use of a company car, and HMRC don't much care how it is funded, so far as you are concerned. It is a benefit in kind and the taxable amount is based on the car's CO2 Emissions and original list price.

	2013/14
5% of list price	1-75g/km
10% of list price	76-94g/km
11% of list price	95g/km-99g/km
1% addition	100,105, 110 etc
Max 35% benefit	Over 214g/km

From your Company's point of view it can make a difference, because the company can either buy or lease the car. This gets a bit technical since a "Finance Lease" is treated as HP and indicates purchase whereas an "operating lease" or contract hire acts as a rental, but let's say the choice is purchase or hire.

With ownership, you can claim capital allowances on the full cost over time. Referring to your handy McLean Reid Tax Facts booklet a £30,000 car would generate capital allowances (HMRC's version of depreciation) at 8% which would give you a deduction of £2,400 from cost in year one, a deduction of (£30,000 - £2400) x 8% in year two, and so on. Theoretically, in 20 years' time you'll still be claiming a very small and ever reducing balance! Of course, by choosing a car with lower CO2 emissions you can get 18% for emissions of less than 130g/km, or even up to 100% for cars of less than 95Kg/m (and there are some). If you want to talk about electric cars or classics, please call!

Lease "rental" entitles the company to claim the actual rental cost, or 80% if the CO2 emissions are 130 or more. Of course with this alternative there is no asset owned, no balance sheet value, and no potential trade-in value later, although half the VAT on the rental should be claimable, which may be significant.

We've been looking at the alternatives for many years, and we have some software that can quantify the comparison (or use the simplified version on our web-site), but at the risk of de-mystifying the decision you will rarely go far wrong if you simply decide on a cash flow basis, although Purchase tends to be better than lease/hire if you are acquiring later in the year.

Of course, you may also need to consider the comparison between using your own car and claiming mileage and having a company car, and that is a variation of the "cash flow" theme that you might want to talk to us about.