

Keeping on Top of Tax Changes

How a few key elements can help ensure your business vehicles are the most tax-effective ones for the job.

This year's Budget may have brought some comfort for small business owners thanks to promises to digitise tax returns and overhaul business rates, but it also threw in a bit of a nasty surprise when it comes to running business vehicles.



On the one hand, the announcement of a freeze in fuel duty rates was very welcome, particularly as fuel costs remain a significant overhead for small businesses despite the recent fall in prices.

But the news that Benefit in Kind tax rates for business cars are to go up by 3% for 2019/20 could effectively negate any cost savings for businesses in the future.

However by adopting a more structured approach to the CO₂ emissions output of vehicles, small business owners and managers can make sure that they are not only running the best tool for the job but also the most tax-effective.

For many SMEs, this can mean rethinking the criteria used to base business vehicle selection on.

Many businesses still choose vehicles based on their purchase price or P11D banding – however, this doesn't provide an accurate picture of a vehicle's true costs whilst it is being run.

Instead, by turning to whole life costs, SMEs can make sure they are not left in the dark when it comes to vital taxation and environmental parameters.

The term 'whole life cost' refers to the total cost of running a vehicle over its life and takes into account every aspect that affects the overall cost of a business vehicle. This not only includes lease or purchase costs but also insurance, depreciation, servicing and maintenance – and fuel and taxation.

Comparing vehicles using whole life costs will provide a far more accurate snapshot of their total costs. For example two vehicles with a similar purchase or lease price can have wildly differing whole life costs.

In the current climate, businesses may well find it prudent to rethink their funding methods and whether they lease or buy vehicles – what may have been the best option over years may well prove to be less effective now.

There are a number of important points to consider before making such an evaluation. Vehicle purchase and leasing bring pros and cons and the decision of which route to go down will depend on a number of different factors.

Outright purchase is often used to obtain business vehicles and brings benefits including being able to treat the vehicle completely as your own and deciding how and when you want to get rid of it with no contractual obligations.

However, the main downside to this is the impact to the business cash flow, which can often be better tied up elsewhere.

For many businesses, this has been a key reason for looking at using contract hire. Not only does using contract hire mean that SMEs can retain cash as working capital to invest in their core areas, but it also means that they can

benefit from accurate cash flow forecasting through fixed business vehicle payments.

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And an added benefit of contract hire is never having to worry about depreciation or the hassle of disposing of vehicles.

One more major advantage is that the vehicle maintenance may be covered in the agreement, providing reassurance on what is often a volatile expense. In fact, contract hire can offer a vital asset for small businesses by providing access to fleet professionals, management data and fleet administration.

However, using contract hire does mean that you are signed up to a fixed monthly rental for a set period, which can bring cost implications if you exceed the contracted vehicle mileage or want to terminate early.

When it comes to making any changes to your business vehicle strategy, it can make sense to turn to a fleet specialist such as Lombard Vehicle Solutions to provide advice using specialist software to carry out the financial modelling for you. Such expert advice can identify the most cost-effective funding mechanisms as well as the most cost-effective vehicles, helping businesses to avoid making costly mistakes as a result of the latest Budget changes – as well as future ones.

If you would like to find out more about what Lombard Vehicle Solutions could do for you, or would like to see our vehicle special offers, please click [here](#).

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