RESOURCE GUIDE · HERMIT BUSINESS SOLUTIONS

Car Leasing vs Buying Through a Limited Company

A plain English guide to the tax, cash flow ***and ownership trade-offs.***

What is the difference

This is a UK specific comparison, since capital allowance, VAT and Benefit in Kind rules are set by HMRC. The right answer depends heavily on emissions, whether the car is also for a director's private use and your cash flow priorities.

Leasing (Contract Hire): the upside

- Lower upfront cost, which preserves cash and credit lines for the business
- Monthly payments are typically lower than financing in the short term
- You deduct leasing costs from taxable profits monthly, rather than waiting years for relief
- 100% of net lease payments are tax deductible for cars with CO_2 emissions of 50g/km or less and 85% for higher emission cars
- No depreciation or resale risk since the car is never owned and it stays off the balance sheet
- 50% of VAT is usually reclaimable on lease payments if there is personal use and 100% VAT is reclaimable on maintenance. 100% of VAT is reclaimable if the car is used exclusively for business e.g. a pool car but note that this can be challenged
- Easier to refresh the fleet or upgrade to newer, cleaner models regularly

Leasing: the downside

- No large upfront tax deduction the way an outright purchase of a new electric car gets, since lease relief is spread evenly over the term regardless of emissions
- Mileage limits apply, with excess mileage charges if you go over (typically a few pence per mile)
- Early termination is usually expensive, often around 50% of the remaining rentals
- You never build equity in the asset

Buying (Outright, Hire Purchase, or PCP): the upside

- Electric cars attract a 100% first year capital allowance even if there is personal use, letting the company deduct the full cost from profits in the year of purchase, though VAT is a separate question (see below)
- No mileage restrictions
- The company owns an appreciating or depreciating asset outright over time, with no ongoing rental commitment once paid off
- Interest on hire purchase finance is a deductible trading expense, with full corporation tax relief

Buying: the downside

- Cars up to 50g/km CO2 get a 14% writing down allowance per year (reduced from 18% from April 2026) and cars above that get just 6% a year, so relief on non EVs is slow and drawn out. The 100% first year allowance for electric cars has been extended and remains in place until 31 March 2027
- It ties up capital that could otherwise fund the business
- VAT can only be reclaimed where the vehicle is used exclusively for business (and this must be proved) and commuting counts as private use
- The company carries the depreciation risk and resale hassle
- It shows as an asset (and any loan as a liability) on the balance sheet, which affects the gearing ratios lenders assess (A gearing ratio is a financial metric that compares your business's debt to its equity, showing how much of your funding comes from borrowing versus ownership. In simple terms, it tells you the balance between money you've borrowed and money you or your shareholders have invested directly).

POINTS TO THINK ABOUT

For limited company directors, purchasing or leasing a car through the company may not be the most tax efficient option once Benefit in Kind charges are factored in. It can end up costing more than owning the car personally and claiming mileage, especially for anything other than a low emission or electric vehicle. Whether leased or bought, providing a car with private use triggers a BIK charge on the director based on list price and CO2 emissions, plus the company pays Class 1A National Insurance at 15% on that benefit value. This is why many contractors and directors instead use their own personal car and claim tax free HMRC mileage rates: for 2026/2027, that is 55p/mile up to 10,000 miles, then 25p/mile

Rough rule of thumb

- New electric car, business will own it long term: buying (HP) is usually most tax efficient because of the 100% first year allowance
- Higher emission petrol or diesel, or you like flexibility: leasing is often more tax efficient since allowances on non EVs are so slow (6% to 14% a year)
- Significant private use by a director: run the numbers on personal ownership with mileage claims versus a company car, since BIK can erode much of the apparent saving

Important caveats

This is general information, not personalised financial or tax advice. UK capital allowance and BIK rates change most tax years. The right answer depends on your specific numbers: car cost, CO2 emissions, mileage, corporation tax rate, and how much private use is involved.