

Car Leasing vs Buying Through a Limited Company

*Leasing, hire purchase and buying outright aren't the same thing. **Here's the difference that actually matters for your tax bill.***

Why this matters

If your company needs a car, there are three main routes: lease it, buy it on hire purchase, or pay cash outright. Hire purchase and buying outright are not the same for tax, even though people often lump them together.

The quick comparison

Figures assume some personal use. With 100% business use, more VAT can usually be reclaimed under any route.

	Leasing	Hire Purchase	Lease Purchase	Cash Purchase
Ties up company cash?	No	No	No	Yes, in full, upfront
VAT you can reclaim	50%	None	See below	None
Do you ever own the car?	No, always handed back	Yes, automatically at the end	Only if you choose to make the final payment	Yes, straight away
100% year-one tax relief on a new EV?	No	Yes	See below	Yes

WORTH CHECKING

Some 'hire purchase' deals are actually a lease purchase (or PCP, for personal deals), and for tax it can go either way, driven by one thing: the final payment. A token final payment means HMRC treats the whole deal like hire purchase, so the 100% relief applies but VAT is blocked with personal use. A market-value final payment means it's treated like a lease instead, so 50% VAT is usually reclaimable but there's no relief. The two move together, never both at once, so it's worth checking the agreement before assuming either way.

What this means for you

- The EV relief above applies on cars bought before 31 March 2027, with personal as well as business use.
- Personal use by a director or employee usually triggers a taxable benefit plus 15% Class 1A National Insurance (P11D), whichever route you choose.