

Contractor Doctor: Can I hire a company car for a single contract?

Dear Contractor Doctor,

I've just won a six-month contract with a new client, but it is based in the middle of nowhere with a terrible journey by public transport. The journey by car from my home to the client is much quicker, so I'm thinking of just hiring or short-term leasing a car purely to get me to and from my home, which is also my company business location, to the client's site each day.

Can I hire or lease a company car for a single contract?

Thanks

Peter

Contractor Doctor says:

According to **James Abbott**, owner and head of tax at contractor accountant **Abbott Moore**, contractors can choose to hire or lease a car personally, or as a 'company car' through their **contractor limited company**. Whichever is the most financially advantageous will depend on the contractor's personal circumstances.

"The easiest solution for contractors who need short-term transport for a specific contract is to hire a car personally and expense 45p a mile," explains Abbott. "However, this may leave the contractor out of pocket, particularly if the daily journey is short and mileage claims are low."

The alternative is for contractors to hire or lease the car via their contractor limited company, which is what Peter is considering. But, as Abbott explains, to adopt this solution contractors have to abide by HMRC's tough company car rules and would normally pay an additional 'benefit in kind' tax charge. In most cases, monthly car hire charges cannot simply be reclaimed as a travel expense like rail or bus fares.

HMRC's company car rules

"HMRC's company car rules require contractors running a company car via their contractor limited company to pay an additional benefit in kind tax charge," continues Abbott. "This is based on the list price of the car and its CO2 emissions, and would also apply on a pro rata basis for a hire car."

The tax charge can run to many thousands of pounds depending on the list price of the car, its emissions and the length of time that the contractor actually hires or leases the car. "The benefit in kind cost is offset by the savings made by reclaiming the VAT on the hire charge and offsetting the hire or lease charges against corporation tax," adds Abbott.

When a car is unavailable for private use, the contractor does not incur a benefit in kind charge. However, Abbott warns that it is very difficult for most contractors to prove they cannot use the hire or lease car for private journeys.

"The contractor must ensure the hirer's insurance policy prohibits private use, keep meticulously detailed mileage logs and pass a board minute to the effect that the hire or lease car is unavailable for private use by the contractor and their family," he says.

A company 'van' is an alternative solution

If the contractor is purely looking for no-frills transport to get them from their home office to the client, then Abbott suggests another option could be a 'company van', because the tax consequences are more favourable.

He explains: "Vans have a fixed benefit in kind charge which can be significantly lower than the charge on a typical hire car. Benefit in kind can be avoided altogether if the contractor can prove that any private use of the van was insignificant." The definition of a van is a commercial vehicle with at least a 1 tonne payload and can include four-seater pick-ups with a flatbed.

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James Abbott, Abbott Moore LLP



James Abbott

Owner

Abbott Moore LLP

James Abbott is the owner of Abbott Moore LLP and often speaks on freelancer / contractor tax matters. He has his own growing portfolio of contractor clients.

Abbott Moore LLP are PCG Accredited Accountants and specialise in providing tax advice to freelancers as well as dealing with their year end accounts and tax returns. [Read Full Profile...](#)

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"HMRC's rules on company provided cars are both complex and strict. In most cases, contractors cannot simply reclaim a monthly hire charge as if it were a travel expense," says Abbott. "If considering a hire or lease car as an option for a single contract, contractors should check with their accountant to identify the most financially advantageous option."

Good luck with your contracting!

Contractor Doctor

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