STRUCTURES EXPLAINED

Hire Purchase vs Lease vs Refinance

A plain-English comparison, with tax treatment and a decision framework.

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CHAPTER 01

The three structures at a glance

Hire Purchase, Finance Lease and Refinance cover the vast majority of UK asset finance transactions. The right one depends on three things: whether you want to own the asset, how you want it treated for tax, and whether you need to release cash from something you already own.

	Hire Purchase	Finance Lease	Refinance
Ownership	You from day one	Lessor (you at option)	You (retained)
Balance sheet	On	Off (FRS 102 1A)	Neutral
Tax treatment	AIA / capital allowances	Rentals deductible	Rentals deductible
Best for	Buying new kit	Cash flow protection	Releasing capital
Typical term	3–7 years	3–7 years	3–5 years

CHAPTER 02

Hire Purchase — deep dive

HP is the most common structure for plant, machinery and vehicles where the buyer wants to own the asset outright. Payments are fixed over the term with a small option-to-purchase fee at the end (typically £150–£350) that transfers legal title.

How it works

- Deposit or VAT paid up front (or financed separately via a VAT loan).
- Fixed monthly payments over 3–7 years.
- You claim capital allowances (AIA or writing-down allowances) in year one.
- Legal title transfers at the end on payment of the option fee.

When HP wins

- You have taxable profits and want to accelerate relief via AIA.
- You want to own the asset at the end — high-value machinery with long useful life.
- You value simple accounting — the asset sits on your balance sheet from day one.

CHAPTER 03

Finance Lease — deep dive

With a finance lease the lender owns the asset; you rent it over an agreed primary term. At the end you can extend into a peppercorn secondary period, sell the asset on the lender's behalf (retaining a share of proceeds) or return it.

How it works

- No deposit required in most cases; VAT is applied to each rental, not up front.
- Fixed rentals over 3–7 years, fully deductible against profits.
- Asset held off balance sheet under FRS 102 Section 1A for smaller entities.
- Peppercorn secondary rental (usually 1% of original cost annually) if you want to keep using it.

When Finance Lease wins

- Cash flow is tight and you'd rather spread VAT across the term.
- You're already at your AIA cap for the year.
- You want the flexibility to walk away at the end of the primary period.

> VAT tip
> On a finance lease, VAT is charged on each rental rather than the full capital cost up front — a meaningful cash flow advantage on six-figure assets.

CHAPTER 04

Refinance — deep dive

Refinance releases capital from equipment you already own — typically plant, machinery, vehicles or specialist kit with clear market value. Common uses: fund the next capital project, consolidate short-term debt, or bridge a working capital gap.

How it works

- We value the asset and agree an advance (typically 70–90% of market value).
- Funds paid to your nominated account, usually within a week of documentation.
- You continue to use the asset; we take a chattel mortgage over it.
- Repayments over 3–5 years.

When Refinance wins

- You've invested from reserves and want to redeploy the cash.
- You need working capital and prefer asset-backed to an overdraft.

- You want to spread the cost of already-owned kit over its remaining useful life.

CHAPTER 05

Decision framework

If you want to…	Choose
Own the asset and claim AIA now	Hire Purchase
Keep the asset off your balance sheet	Finance Lease
Spread VAT rather than pay it up front	Finance Lease
Release capital from equipment you own	Refinance
Minimise total interest paid	Hire Purchase (shorter term)
Preserve working capital for other uses	Finance Lease or Refinance

> *“We talk clients through all three every day. There is no universally best structure — there is only the one that fits your accounts, your VAT position and what you want the asset to do for the business.”*

NEXT STEPS

Let's talk numbers.

Every situation is different. Send us a note with the asset, the ballpark cost and your preferred term — we'll come back with structured options, indicative payments and the tax treatment for each route.

Talk to us
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