

How to Buy Your Next Car



Buying a car is about more than just the monthly payment

Whether you're replacing an ageing vehicle or treating yourself to something new, it's worth taking a little time to understand the different ways you can pay for it.

The right option will depend on things like your budget, how long you plan to keep the car, your typical mileage and your longer-term financial goals.

This guide explains the three most common ways to buy a car:

- Paying in cash
- Personal Contract Purchase (PCP)
- Personal Contract Hire (Leasing or PCH)

The lowest monthly payment doesn't always lead to the lowest total cost.

This guide focuses on personal car ownership, with page 14 focusing on business ownership.





Option 1 – Paying in Cash

How it works:

You pay the full purchase price upfront using savings or money borrowed through a personal loan.

Once you've paid, the car is yours.

This could be right for you if:

- You have surplus cash which isn't intended for other purposes
- You plan to keep the car for longer e.g. 3 years or more.
- You want the flexibility that outright ownership can give
- You prefer to avoid ongoing finance agreements.

This is the simplest option, as there are no ongoing finance commitments or agreements with finance companies.

Advantages

- You own the vehicle immediately.
- No monthly finance payments.
- No mileage restrictions.
- No charges for wear and tear.
- You can sell or trade in the car whenever you choose.
- Outright purchases have no impact on mortgage affordability.

Things To Consider

- It requires a larger upfront payment.
- Using savings may leave less available for emergencies or other goals.
- You bear the full reduction in value of the car ('depreciation').
- The interest rate on personal loans will usually be higher than mortgage interest rates and will often be higher than average expected investment returns.
- Few lenders offer personal loans large enough to fund outright purchases of more expensive new cars like electric vehicles.
- Large, out-of-warranty repairs or significant depreciation can lead to the total cost of outright purchases becoming higher than PCP or PCH would have been.



Option 2 – Personal Contract Purchase (PCP)

How it works:

Usually, PCP is the most popular way for individuals to purchase new cars in the UK.

You normally:

- Pay an initial deposit.
- Make fixed monthly payments for an agreed period (usually 2–4 years).
- At the end of the agreement, choose one of three options:
 - Return the car.
 - Use any equity towards another vehicle.
 - Pay a final optional payment (often called the balloon payment) to own the car.

The monthly cost is based on the difference between the purchase price and the future value (i.e. the expected ‘depreciation’).

Option 2 – Personal Contract Purchase (PCP)

This could be right for you if:

- You like changing your car every few years.
- You want lower monthly payments than you would have if you used a personal loan to purchase the car outright.
- You value flexibility at the end of the agreement.
- You want to have some protection against the risk of depreciation being higher than you expect.



Advantages

- Flexibility at the end of the contract - you can choose to return the car, or pay the balloon payment to keep it.
- Often makes newer vehicles more affordable.
- Warranties and service plans often match the length of PCP agreements.
- It's usually possible to 'buy out' the finance agreement earlier, e.g. if you want to own the car outright, or to sell it and change cars before the agreement ends.
- Can help to give a degree of protection against higher than expected depreciation.
- You can still benefit if depreciation is lower than expected, by building up equity in the vehicle.





Things to consider

- You are not the owner of the car unless you pay the final payment.
- A large final payment is needed if you want to keep it.
- Annual mileage limits apply.
- Excess mileage charges can be expensive.
- The vehicle must be returned in good condition, with fair wear and tear standards applied.
- The monthly cost of PCP reduces mortgage affordability.



Option 3 – Personal Contract Hire (PCH) (Leasing)

How it works:

Leasing is effectively a long-term rental agreement.

You usually pay:

- An initial rental (often equivalent to between one and nine monthly payments).
- Fixed monthly payments throughout the agreement.
- At the end, you simply return the car.

Unlike PCP, there is normally no option to purchase the vehicle.

Advantages

- Often the lowest monthly payments.
- Brand-new vehicles with manufacturer warranty.
- Road tax is often included.
- Maintenance packages can sometimes be added.
- No worries about selling the vehicle later.
- Lease companies buying fleets of vehicles can negotiate lower purchase prices, and these savings can be passed onto you through lower monthly costs.
- With 'salary sacrifice' schemes, car ownership costs can be paid from pre-tax earnings. For higher and additional rate taxpayers, this can be particularly tax-efficient. The tax relief is most effective for electric vehicles, due to high company car tax on other vehicles.

Things to consider

- You'll never own the vehicle.
- Mileage limits apply.
- Excess mileage and damage charges can be costly.
- Ending the agreement can be expensive because the monthly cost is based on the expected depreciation over the full agreement.
- Inflexible.

Comparing Your Options

	Cash	PCP	Leasing (PCH)
Own the car?	Yes	Optional	No
Monthly payments	None	Yes	Yes
Upfront payment	High	Usually a deposit	Initial rental
Mileage restrictions	No	Yes	Yes
Can you sell the car?	Yes	Only if you own it	No

Things to Think About Before You Decide

Ask yourself:

- How many miles do I drive each year?
- How long am I likely to keep the car?
- Is owning the car important to me?
- How will my car purchase impact my other objectives?
- Could lower monthly payments cost more overall?
- What happens if my circumstances change?

The answers to these questions will help you decide on your priorities.



Looking Beyond the Monthly Payment

It's easy to focus on the monthly payment when comparing cars, but it's important to consider the total cost of ownership.

Remember to budget for:

- Insurance
- Fuel or charging costs
- Servicing and maintenance
- Repairs
- Tyres
- Vehicle tax (if applicable)
- Depreciation
- Finance interest
- Breakdown cover

Considering all of these factors will help you to compare the total cost of ownership. You can then consider whether you are happy to pay more for additional convenience and flexibility etc.

Finding Out More

- Two of the big unknowns when purchasing a car are the maintenance costs and the depreciation.
- There are 'indexes' available online which estimate potential maintenance and depreciation for any car make and model, even for new models
- These tools can help you to get an estimate of what to expect, though they won't always be accurate
- There are also forthcoming changes to the taxation of electric vehicles so, if you're considering buying one, find out more here: <https://www.gov.uk/guidance/vehicle-tax-for-electric-and-low-emissions-vehicles>



Business Car Ownership

- If you are a business owner, it can be tax-efficient for your business to purchase or lease cars directly. This is most tax efficient for electric vehicles (EVs).
- For EVs purchased outright, 100% of the cost of the car can be deducted from the profits in year 1.
- For cars which are leased by businesses, the monthly payments are deductible as business expenses. The benefit of this is offset by 'Benefit in Kind (BIK)' tax being charged on you as the employee.
- EV BIKs are currently very low (4% in 2026/27) but these are set to increase to 9% by 2029/30. As EVs become more common, this option will become less tax efficient.
- Always check with your accountant who may be able to help you to consider the different options before you commit.





Summary

When you buy a car, no matter which option you choose, all you're ever doing is funding the depreciation and maintenance costs from the time you buy it, to the time you sell/return it.

So the cheapest option will be the one that allows you to minimise these costs. However, as we've seen, the cheapest option isn't always most suitable.

Hopefully this guide has helped to explain the options available and the pros and cons of each. However, if you're thinking of buying a car, we'll always be glad to talk through the options with you, and give you an unbiased opinion to help you reach the right decision.



We're Here to Help



hello@spendtime.co.uk



spendtime.co.uk



0118 2142140

Disclaimer

Please note: Nothing in this guide should be taken as advice. If you'd like to discuss your own circumstances, please get in touch.

Let us know if you'd like to talk anything through.