

Now let's do a sample calculation for financing a Tiguan SUV for 84 months on a monthly payment for a customer located in the province of Ontario, where sales tax is an HST of 13%. (vehicle quoted on May 2022)

Sample Financing: 2022 VW Tiguan Trendline 2.0 TSI 184-HP 8-speed automatic transmission (base trim)

- Base MSRP: \$33,695.00
- Term: 84 months
- Transportation & Pre-delivery Inspection (PDI): \$2,637.00
- Interest: 5.99% annually for 84 months (7 years) or \$8,237.00 total (calculated at VW Canada Build tool)⁶
- Sales Tax (Ontario HST): \$4,723.00

Now that we have all the source numbers, we can go ahead and simulate the same exact math that runs on the Volkswagen website and will also be done by a VW dealership sales advisor:

- Total Payment = MSRP + "Transportation & Pre-delivery Inspection (PDI)" + Interest + Sales Tax
- Total Payment = \$33,695.00 + \$2,637.00 + \$9,308.00 + \$4,723.00
- **Total Payment ~ \$50,363.00**

- Monthly Payment = Total Payment / Contract Term
- Monthly Payment = \$50,363 / 84 months
- **Monthly Payment = \$599.56**

As you see, the MSRP is the core of the calculation. Besides the "Transportation & PDI" cost which is very similar across manufacturers, all other numbers come from the original MSRP: sales tax and the lease

⁶ *Build & Price - Volkswagen Canada*
<https://www.vw.ca/build>

interest. Then the monthly payment is that total divided into 84 equal monthly payments.

You can now go and play with those calculators on the manufacturers' websites. For automakers, these calculators are a must nowadays on their online experience and an important part of their customer acquisition process. You will find on Figure 1.3 the screenshot of the Tiguan "build" I used here.

Now, let's see the very similar way of calculating a car lease cost for the same sample customer. You will notice the only formula difference relies on a variable called "residual value*" that we will cover later in the next chapter. All else remains the same:

Car Leasing Formula:

- **Total Payment** = (MSRP - **Residual Value***) + "Transportation & Pre-delivery Inspection (PDI)" + Interest + Sales Tax
- **Monthly Payment** = Total Payment / Contract Term

Sample Leasing: 2022 VW Tiguan Trendline 2.0 TSI 184-HP 8-speed automatic transmission (base trim)

- Base MSRP: \$ 33,695.00
- Term: 48 months
- Km Allowance per Year: 20,000 km
- Residual Value: \$ 16,173.60 (48% of the MSRP)
- Interest: 5.24% annually for 48 months (4 years) or \$5,507.60 total (also calculated at VW Canada Build tool)
- Transportation & Pre-delivery Inspection (PDI): \$ 2,637.00
- Ontario HST: \$3,337.00

CAR LEASING DONE RIGHT

Finance		\$599.56 ² Monthly
Your build cost		\$33,695
Additional fees (Show less)		\$2,637
Freight and fees		\$1,950.00
A/C Tax		\$100
Tire stewardship fee ¹		\$20
Dealer admin fee		\$499
OMVIC		\$10
PPSA		\$58
Sales Tax		\$4,723
Total price		\$41,055
Financed over how many months		
84 Months Finance Rate 5.99%		▼
How often would you like to make payments?		
Monthly		▼
Down payment	Trade-in value	
\$0.00	\$0.00	
<input type="checkbox"/> I'm a current VW Owner. Add two years PPM at no cost (valued at \$559.00) on my next VW**.		
Total obligation		\$50,363
Cost of borrowing		\$9,308
Monthly finance cost		\$599.56²

Lease		\$604.23 ² Monthly
Your build cost		\$33,695
Additional fees (Show less)		\$2,637
Freight and fees		\$1,950.00
A/C Tax		\$100
Tire stewardship fee ¹		\$20
Dealer admin fee		\$499
OMVIC		\$10
PPSA		\$58
Sales Tax		\$3,337
Total price		\$39,669
Length of Lease Term		
48 Months Lease Rate 5.24%		▼
How often would you like to make payments?		
Monthly		▼
Down payment	Trade-in value	
\$0.00	\$0.00	
Annual driving distance		
20,000 KM		▼
<input type="checkbox"/> I'm a current VW Owner. Add two years PPM at no cost (valued at \$559.00) on my next VW**.		
Total obligation		\$29,003
Residual value		48%
Monthly lease cost		\$604.23²

Figure 1.3 VW Canada Build & Price tool (<https://www.vw.ca/build>). The calculation was made on May 2022 and verified against the Financing and Leasing calculators at the Canadian Automobile Protection Association website. (<http://www.apa.ca>)

It is important to note that, on a lease, you will “partially consume” the vehicle. You will do so for about 52% of the MSRP value and then you will return the car that is expected to be worth about 48%. Where did I

got this number from? It was provided by VW on the calculator. You can find it on the right bottom of Figure 1.3. Later on chapter 2, you will learn more about it.

For now, let's get back to the formula:

- Total Payment = (MSRP - **Residual Value***) + "Transportation & Pre-delivery Inspection (PDI)" + Interest + Sales Tax
- Total Payment = (\$33,695.00 - \$16,173.60) + \$2,637.00 + \$5,507.60 + \$3,337.00
- **Total Payment** (also known as obligation) = **\$29,003.00**

- Monthly Payment = Total Payment / Contract Term
- Monthly Payment = \$29,003.00 / 48 months
- **Monthly Payment = \$604.23**

And that's it! At the beginning it may sound more complex than it really is, but it all comes to ground this way. Those are the variables you need to add, and then your final monthly/bi-weekly/weekly payment comes out after splitting it out from the total.

Figure 1.4 shows three sample payment schedules for leasing a vehicle. Each scenario differs from the other in order to illustrate how the duration of the lease affects the residual value part of the formula.