LEASING EXPLAINED

WHAT IS A FINANCE LEASE?

Finance Lease is a credit agreement most usually chosen by business customers including limited companies, partnerships, and sole traders. Essentially, Finance Leasing enables the business to acquire the assets needed to maintain a business, without needing to buy the asset outright.

HOW LEASING WORKS - IN NUMBERS

You lease a machine that costs **£5,000.00 + vat,** over a 5 year term.

Payment would be **£112.52 + vat** per month, which is a weekly equivalent of **£25.97 + vat** over 60 months.

Total paid over the term of the lease **£6,751.20 + vat**.

19% tax can be reclaimed on the total lease payments over the 5 years, so a total of **£1,282.73**.

Therefore the net cost of the lease is:
£6,751.20 + vat - £1,282.73 = £5,468.47 + vat.

LEASE RENTAL IS 100% TAX DEDUCTIBLE

The main reason that the majority of companies lease rather than purchase equipment is that they use leasing as a method of reducing their tax bills. This is because lease rental is 100% tax deductible, and all payments made for the equipment are written off against the company's tax bill. For any profit-making business, this means a substantial saving in the real cost of acquiring equipment by lease rental. This could mean a saving of between 20-40% of the lease payments, depending on the rate of tax you pay*.

Payments on qualifying leases are written off as direct operating expenses, rather than a debt or outstanding liability, thus reducing short term taxable income.

Any capital allowances are passed on to you, and lease payments can be offset against taxable profits. VAT can also be reclaimed on monthly payments. This status as a "lease" as opposed to a "liability" on a company's balance sheet is something the banks like to see, which is why an operating lease can be attractive. For this reason, leasing is often referred to as 'off balance sheet' financing – a tremendous advantage to both large and small businesses.

OWNERSHIP AT THE END OF THE LEASE

Lease rental is just that, a rental or hire agreement. Title of the goods remains with the Lessor (either Kennet or assigned to one of our panel of lenders) which means the equipment does not show on the company's balance sheet, therefore not needing to be depreciated over a fixed period.

If Kennet broker the funding, they are the "third party" involved within the lease agreements. In effect, Kennet buys the equipment and will relinquish title for one further monthly payment, we will then have no further financial interest in the equipment. This means that the customer can take full advantage of all the benefits of leasing.

OTHER BENEFITS OF LEASING

- Finance Leases offer flexibility in terms of length of agreement, rental repayment profile and end of lease options.
- Unlike making an outright purchase, you will retain cash within your business.
- Effective financial planning. The lease repayment profile gives you confidence in being able to budget for the lifetime of the asset.
- Tax advantages
- Using the latest assets will ensure you remain competitive by keeping your costs low.
- Fast turnaround times
- Potential to carry on using the asset at the end of the lease period for a nominal payment, or you can look to upgrade the equipment with another lease.

THINGS TO BE MINDFUL OF:

Non-payment could negatively affect the credit rating of the business and the guarantor and could result in the asset being re-possessed.