

The Benefits of Leasing

Lease vs Cash Purchase

For companies with taxable profits less than £300,000 per year the tax rate of 20% will be applicable

Example - let us assume you are purchasing an item of equipment. The two choices are whether to buy it for £10,000 or lease it over a 5 year period.

Outright Purchase

	Amount	Write Down Allowable	Corporation Tax Rate	Tax Benefit	Corporation Tax Rate	Tax Benefit
	£	£		£		£
YEAR 1	10000	2500	20%	500	30%	750
YEAR 2	7500	1875	20%	375	30%	563
YEAR 3	5625	1406	20%	281	30%	422
YEAR 4	4219	1055	20%	211	30%	317
YEAR 5	3164	791	20%	158	30%	231
			Total	£1,525	Total	£2,283

The example shown on the left is for outright purchase for £10,000 with the customer claiming 25% written down allowances per annum.

This example shows the customer paying tax at 20% or 30%.

The overall tax saving to the customer is £1,754.19 and £2,283 if he is paying higher corporation tax.

This means that he is able to reduce his tax bill by these amounts.

Leasing

	Amount	Write Down allowable	Corporation Tax Rate	Tax Benefit	Corporation Tax Rate	Tax Benefit
	£	£		£		£
YEAR 1	2800	2800	20%	560	30%	840
YEAR 2	2800	2800	20%	560	30%	840
YEAR 3	2800	2800	20%	560	30%	840
YEAR 4	2800	2800	20%	560	30%	840
YEAR 5	2800	2800	20%	560	30%	840
			Total	£2,800	Total	£4,200

The example shown on the left assumes a cost of £10,000 and a lease rate of £70 per thousand.

A key point to note is that with leasing the customer can claim 100% of the rentals against tax.

With leasing the overall tax saving to the customer is £3,220 or £4,200.

This means that the customer is able to reduce their tax bill by these amounts.

From a review of the figures, the evidence clearly is that Leasing is a tax efficient solution.



The Benefits of Leasing for the Customer

Tax Relief

Lease payments are 100% tax deductible therefore reducing your tax burden.

No Capital Outlay

There is no capital outlay or deposit required - just the rentals paid in advance.

Budget Forecasts

Leasing provides certainty and ease of budgeting as your payments are fixed over the life of the equipment. Also if your business is controlled by capital expenditure budgets then leasing may well help you overcome your problems as it will be easier to obtain sign off for a lease rental amount.

Improved Cash flow

Leasing can save you from sinking capital into a depreciating asset enabling you to invest in product development, marketing or other business opportunities.

Upgrading Existing Equipment

If the equipment is purchased, it may drop in value quickly due to the ever changing world of technology. With leasing you can upgrade at any time allowing your business to keep up with the latest technology on the market. This will mean no waiting for months or years to recover capital costs.

Future Credit

Leasing gives you an additional line of credit and does not affect your existing credit lines. Also, unlike borrowing from bank, leasing will not tie up any assets in the form of security or collateral and is not affected by fluctuations in interest rates.

Having more than you could afford

You can start using equipment now that you may not have been able to afford had you opted for a straight purchase and a lump cash payment. Leasing allows you to spread the cost of the equipment over a designated period.

**Lease payments are 100% tax deductible,
which makes leasing a highly efficient financial strategy for all types of business**

