UNBIASED ADVICE

Buying workshop equipment … should I use cash or take-on a lease?

Although leasing has been around for a long time, there are still many people who don't fully understand or appreciate the real benefits. Here are some questions and answers, which will hopefully help the next time you make a decision whether to pay cash or lease your workshop equipment.

What is a Lease?

A lease is a "business to business" funding facility and not consumer finance, a lease facility is unlike any other finance arrangement because the finance company does not effectively lend money to the end user. As a result of this there's no APR quoted. The finance company pays the supplier direct for the goods including the entire amount of VAT. The customer then agrees to make fixed monthly payments over an agreed period usually by Direct Debit allowing the business to have full use of the equipment.

What about the VAT?

VAT is only charged on each monthly repayment. This means the customer does not have to pay the VAT up front based on the capital cost. Although VAT is reclaimable, some businesses see this as a cash flow benefit especially in situations where the capital cost is high.

What happens at the end of the lease period?

This is probably the most asked question and often the most confusing. At the end of the lease period a nominal **single,** one off payment is paid to the leasing company and this allows us to pass title of the equipment to your business.

What are the Tax Benefits?

Whether you are a small one man operation or an established blue chip company it is very important you make the correct funding decision before you buy.

You may well have the cash to buy the equipment outright, but you must decide whether this is the right decision for your business from a taxation point of view?

With a lease facility, 100% of the repayments can be off-set against your profits, thus reducing your tax liability each year. Because you do not have to take the depreciation of the equipment into consideration your business will enjoy maximum tax benefit for the full duration of the lease period.

Documentation

There are many types of lease documents around but the two most widely used are "**FIXED TERM**" and "**MINIMUM TERM**" documents.

Fixed term

This type of document ensures that the payments will cease once the lease reaches the end of the term without any intervention from the customer. Usually a nominal one off payment at the end allows title of the equipment to be passed.

Minimum term

This type of document is becoming increasingly widespread in our industry but in our opinion should be avoided. This type of document, as the name implies, allows the customer to pay the minimum number of payments. However, unless the customer writes to the leasing company to terminate the agreement then the Direct Debit will remain live and further payments will continue to be taken.

Our advice is to carefully check the wording on the document before you sign.

Why do I have to pay a Documentation Fee?

As with most commercial finance transactions in today's market place it is usual practice for the finance companies to charge a fee for effectively "setting up" the agreement. This is usually referred to as a Documentation Fee. This payment is normally taken by Direct Debit along with the first payment.

Benefits of Leasing

- **Low or even Nil Deposit**. Re-payments do not commence until the equipment has been installed.

- **Conserves Cash Flow**: Cash can be retained for more profitable use within your business. Having cash in your business ensures funds are readily available for unexpected expenditure. Also maintains a positive cash-flow for you business.

- **Fixed Payments**: All payments are fixed for the full duration of the lease and guaranteed not to increase regardless of interest rate fluctuations. Fixed payments are hedged against inflation and allow you to quickly calculate cost versus income over the repayment period.

- **Tax Relief**: All lease repayments are treated as expenditure and are 100% deductible for taxation purposes.

Questions about responsibilities

Who is responsible for insuring the equipment?

As soon as the customer takes delivery of the equipment they are obliged to insure it against loss or damage. They are also liable for third party risks, including loss, damage or injury to persons or property. The lease company may ask for proof of equipment insurance and if the customer does not have any, arrange it on their behalf. The premium would then be charged along with their rentals.

What happens if the equipment is stolen or damaged?

If the equipment is stolen or damaged the customer should deal with this through their insurers in the usual way. They must inform the leasing company as soon as possible if loss or damage occurs. If they make an insurance claim that results in the equipment being replaced, then this new equipment will belong to the lease company.

What about maintenance of the equipment?

The customer is required under the terms of most lease agreements to make sure that the equipment is maintained and used in accordance with the manufacturer's instructions.

What happens if the customer moves premises?

The equipment is owned by the Finance Company, so the customer will need their agreement to move it. Therefore, the customer should notify them with the details as soon as possible before the move and they will process the request for transfer to a new site. The equipment may not be moved outside of the UK.

Most of the GEA Garage Equipment Suppliers & Manufactures shown on our web site should be able to provide you with a lease facility.

The GEA thank Alliance and General Leasing Ltd for help in compiling this document. Their contact details can be found in the "find a supplier" area of the GEA website under the heading "finance companies"