Leasing could be the helping hand enterprises need

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Date: 10/09/2003 08:47:00
Words: 1026
Source: AFRBreaking
Publication: Financial Review
Section: Special Report 1
Page: 4

Renting or leasing computer equipment is one way for small businesses to improve their cash flow, rather than tying it up in rapidly depreciating technology, and they get a tax deduction at the same time.

Greg Cassano, IBM's manager for small business, says the lease-versus-purchase decision revolves around the issue of cash flow.

"How do they preserve their cash flow? How do they preserve their lines of credit to use in the investments they want to make in their business?" he asks.

"A key way to do that is to look at lease mechanisms which enable them to spread payments over time to match the value they get out of the equipment."

The US computer giant offers a finance lease called Successlease through its subsidiary, IBM Global Finance.

Leasing can help a small business get a common technology platform from day one. For example, the business could purchase one PC a quarter over three years. But at the end of year three, it has 12 computers that could have different features and performance.

Instead, if it made similar payments through a lease, the business could purchase 12 computers from the outset.

As Cassano notes, managing one version is a lot cheaper than managing several.

Finance companies use the terms "rental" and "lease" interchangeably. Although the two arrangements are different, in most cases the user is referring to a rental lease that is also known as an operating lease.

Under an operating lease, the customer is not after ownership at the end of the lease. The lease covers, say 80 per cent of the value of the technology. At the end of the lease, the customer can choose to buy the equipment. It is not obliged to buy.

The other arrangement is a finance lease, where the customer owns the equipment at the end of the lease term. This lease has a residual, where the business has agreed to make a balloon payment at the end.

Greg Hayes, a senior partner with Sydney-based accountants Hayes Knight, says the purpose of the finance will determine which option to take.

"Is the purpose of the finance to own it or is it to get utilisation of the assets?"

Unlike a finance lease, a rental lease may allow a small business either to continue to rent the equipment, purchase the equipment at fair market value, trade up to the latest technology or return the equipment with no further obligation.

Fair market value is the price the finance company would expect to receive in the used equipment market or at auction.

The operating lease is more flexible than the finance lease as the business can decide if it wants ownership of the equipment at a later date. But it can be more expensive.

"Most operating lease decisions tend to be based around an organisation's need to take assets off the balance sheet. That doesn't tend to be as appropriate for a small to medium enterprise," Cassano says.

In his view, the overall payments made under an operating lease will be higher than for a straight residual lease or finance lease.

Charles Jolley, the managing director of Hewlett-Packard's Asia Pacific financial services division, says small businesses tend to use leasing over other financial arrangements because they can retain their credit facilities with their banks for other needs such as payroll.

Computer equipment suppliers use different finance companies to manage leasing arrangements. For example, HP uses RentSmart for customers wanting to finance computer equipment valued between $500 and $20,000, while Harvey Norman uses Flexirent Capital.

Requirements and conditions vary between finance companies, but there are some common threads.

Typically, a small business will need a one-year trading history, a good credit rating and credit approval by the finance company.

RentSmart, for example, will consider self-employed traders, professionals, small and medium-sized businesses, home office, partnerships, government departments, schools, churches.

It will also consider employees, provided they are using the equipment predominantly for business purposes at home or in the office. And the total rental value must be at least $550, including GST.

Equipment can be rented separately, or bundled, including a computer, printer, scanner, desk, digital camera and other peripherals. Most companies will only rent software if it is bundled with other equipment.

Interest rates are higher for small amounts, so bundling products can be one way of lowering the overall cost, Hayes says.

Flexirent's plan will also include software, training and an extended warranty, up to

25 per cent of the total rental plan.

Once finance is approved, no deposit is required. Instead, you normally pay the first month's rental by direct debit or credit card. The finance company automatically deducts the remaining payments on a monthly basis.

The cost of using the equipment is spread over your choice of term: two, three or four years.

If you use your computer and equipment mainly for business, even if you work at home, your payments may be up to 100 per cent tax deductible. However, it is wise to consult your tax adviser to determine the exact benefits.

Businesses registered for an ABN should be able to claim the GST amount as an input tax credit. If they are unregistered, the GST charge may be tax deductible but it is treated as part of the rental amount.

Unlike a loan, the fixed rental payments are an off-balance-sheet expense and treated as an operating expense.