

Lease rental v cash purchase

This example assumes the following cost and rate of tax

Invoice value	£5,000.00
Lease Period	3 years monthly
Highest tax rate	20%

Figures exclude VAT and assume customer is a tax paying organisation

Lease rental

Tax relief is available on all rentals at the highest tax rate you pay.

Year	Rentals payable in year	Total	Tax relief
1	12 months @ £173.95	£2,087.40	£417.48
2	12 months @ £173.95	£2,087.40	£417.48
3	12 months @ £173.95	£2,087.40	£417.48
Total tax relief over 3 year period			£1,252.44

Cash purchase

Tax relief is available on the capital allowances on the equipment.

This is based on a reducing balance each year

Year	Capital allowances in year	Total	Tax relief
1	20% of £5,000.00	£1,000.00	£200.00
2	20% of £4,000.00	£800.00	£160.00
3	20% of £3,200.00	£640.00	£128.00
Total tax relief over 3 year period			£488.00

"...every man is entitled if he can to order his tax affairs so that the tax attaching ... is less than it otherwise would be."

Lord Tomlin's judgement in the Duke of Westminster case

In addition to the tax benefits you may obtain by leasing your new equipment, there are many other benefits. Cash purchase has an immediate adverse effect on cash flow; you may be able to use the money to better effect elsewhere in the business.

Purchase may reduce you flexibility should your needs change; leasing makes it easy for you to upgrade or add to your equipment.

If you are considering a bank loan or overdraft facility to fund your purchase, bear in mind that this will utilise some of your available credit and may affect your ability to obtain or increase an overdraft to meet working capital needs. Your loan or overdraft may be repayable on demand; no-one will "foreclose" on your lease whilst payments are being made. Your bank may also ask for extra security such as a debenture over book debt or a charge on your property.