

## Maximising the Effectiveness of Your Fit Out Spend

At ODBGroup we are able to provide cost effective design and construction solutions to ensure all investment you make in your refurbishment and fit out is maximised. See our website at [www.odbgroup.com](http://www.odbgroup.com) for details and case studies.

Options for financing your fit out include purchasing outright using existing assets, borrowing some or the entire sum, or leasing. There are advantages and disadvantages in these options; this information sheet explains how the choice between buying and leasing can affect your business.

<b>Lease Rental</b>	<b>Cash Purchase</b>
<b>Advantages</b>	<b>Advantages</b>
Leasing and renting are highly tax efficient forms of funding that attract 100% relief against taxable profits.	You are treated as the owner for tax purposes and can claim your own capital allowances. Please refer to the tax implications of purchasing further in this document.
You pay for the asset over the fixed period of time that you use it, which helps you to budget for the future.	You own the asset and it can't be repossessed - unless it has been used as security for a loan
You have access to a higher standard of fit out which you may not be able to afford if you buy outright	You don't tie your business into long-term agreements which may be difficult to terminate.
As interest rates on monthly rental costs are usually fixed, it is easier for your business to forecast cash flow - you can spread the cost over a longer period of time and match payments to your income.	Depending on your tax / profit status an outright cash purchase could prove to be a cheaper alternative to leasing. (Seek professional advice)
You don't have to pay the full cost of the asset up front, so you don't use up your cash or have to borrow money.	If the business is not strong enough to support a lease application then cash offers an instant solution to proceed with the project.
A lease does not contain restrictive covenants that limit your ability to borrow future funds. As long as you comply with the terms of the lease, the lessor cannot disrupt your use of the equipment or demand payment in full of the outstanding lease payments.	
Fixed rate leases offer protection against the adverse effects of inflation thereby reducing the true cost of ownership.	

<b>Lease Rental</b>	<b>Cash Purchase</b>
<b>Disadvantages</b>	<b>Disadvantages</b>
Leasing carries an interest charge burden which needs to be factored into the cost of the project although the tax relief can offset a large proportion of the interest.	You have to pay the full cost of the asset up front including the VAT which can adversely affect your cash flow.
Your business can be locked into inflexible medium or long-term agreements, which may be difficult to terminate.	If you use an overdraft or loan to fund the purchase it will add to the cost - overdrafts can be withdrawn at short notice and in some cases early repayment of loans can be demanded.
When you lease an asset, you don't own it, although you may be allowed to buy it at the end of the agreement.	You can't easily spread the cost to coincide with money coming into the business.
Leasing agreements can be more complex to manage than buying outright and may add to your administration.	Precious cash is tied up and not available for investment into other more profitable areas of the business.

See next page for an example which provides an example between cash purchase and lease rental.

### **The tax implications of buying and leasing equipment**

Leasing allows all of the cost to be offset against Corporation Tax. Purchasing the fit out requires a tax calculation based on the use of Capital Allowances and include the use of Enhanced Capital Allowances (ECA) to calculate the amount of tax relief. This scheme is part of the Governments programme to manage climate change by offering tax incentives for investment in energy efficient products. Whereas the method for claiming and calculating tax relief for leasing & rental is simple and of course applies to "non efficient products" the rules for ECA are more complex. For more detail refer to the HMRC website.

If your business reaches a low profit or loss, claiming the full capital allowances may not be worthwhile. With shorter leases - less than five years and sometimes less than seven - the leasing company will claim the capital allowances against its own profits and should pass on the savings to you in reduced rental charges. Businesses can usually deduct the full cost of lease rentals from taxable income as a trading expense where the lease is not a long-funding lease.

ODBGroup have a number of budgetary tools which can quickly assess the likely cost of a fit out and are always happy to meet and discuss these options without charge or commitment. We also have partnering arrangements with leasing companies and are able to offer confidential advice and quotations for a variety of scenarios.

Lease Rental v Cash Purchase Comparison			
<b>Project Cost</b>	<b>£100,000</b>		
<b>Lease Term (months)</b>	<b>36</b>		
<b>Lease Rental</b>		<b>Cash Purchase</b>	
Monthly Payments	£3,300	Initial Cash Outlay	£100,000
Total Repayable	£118,800	Less Tax Relief **	£12,200
Less Tax Relief *	£29,700	Add Lost ROI ***	£24,000
<b>NET COST Lease</b>	<b>£89,100</b>	<b>NET COST Purchase</b>	<b>£111,800</b>
<b>Lease Saving £22,700</b>			
Strictly subject to credit approval.		Depreciation 20% p.a. on a reducing balance basis	
*Based on 25% Corp Tax P.A.		Based on 8% p.a.	
Rental Payments are 100% allowable against taxable profits		Writing down allowance /depreciation is allowed at 20% per annum.	
Pay for the equipment as you use it.		Ties up cash in a depreciating asset.	
Working capital is protected		Cash not now available in the business.	
Enhanced return on investment - Pay for the equipment over it's useful working life.		Lost ROI - Wait years to recoup the "value" of the initial cash outlay	

