White Paper

Our guide to office equipment finance

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Understand your agreement

You should always make sure that you understand exactly what is included and excluded from a lease or other finance agreement.

Unfortunately, it is very much a case of buyer beware as once an agreement has been signed, you are usually legally bound by it and there is often little recourse if you consider it to be wrong in some way.

The Finance and Leasing Association (FLA) is the leading trade association for the asset, consumer and motor finance sectors in the UK. The FLA Business Finance Code sets out standards of good practice for the finance and leasing industry in the conduct of transactions with business customers. It has specific sections which deal with finance arrangements for Copiers and Multi function devices.

- *Minimum or initial hire periods for copiers and multifunctional devices must not exceed a term of 5 years.*
- *Key provisions of the finance agreement must be presented to the customer before that agreement is made.*
- *The cost price of the copier/multi-functional devices must be clearly set out and must be no greater than the manufacturer's recommended price.*
- *Where the business finance agreement combines the services with the finance rental, the agreement must clearly show how the services and finance rentals are broken down.*

Things to note

Schools and academies may be obliged to consider finance agreements in accordance with IAS17. This has specific demands regarding the structure and term of a Lease agreement and so Schools may require an Operating Lease, which is slightly different to a Finance Lease and requires the total value of the repayments to be less than the value of the equipment.

Finance Leases may be either fixed term or minimum term and these mean slightly different things. A fixed term comes to an end and you are obliged to return the equipment unless you come to an arrangement with your supplier. A minimum term is for the original period and then carries on until you cancel the agreement. You should make always make sure what type of agreement you have.

What type of finance?

There are a number of different types of finance that are available when buying new office equipment.

Lease Rental

is the most popular form of office equipment finance. It offers a number of benefits to most companies and used properly is an excellent way to spread the cost of your copying and printing equipment.

With a Lease Rental, your leasing agreement is with a third party provider who pays your supplier for the equipment and then charges you an agreed rental for an agreed period of time – usually three or five years. At the end of the minimum term you can return the equipment or arrange to extend the rental period (subject to agreement).

The benefits of lease rental are well documented; the rental cost is 100% tax deductible, the equipment remains off balance sheet and so does not require depreciation, it makes equipment affordable, spreading the cost over fixed quarterly payments, keeping cash in the business.

The drawbacks are that you do not own the equipment at the end of the lease period and are not legally allowed to, as you have benefited from the tax relief; you are responsible for the insurance and maintenance of the asset whilst you have the use of it, continued use of the equipment at the end of the lease period is subject to the agreement of your supplier.

Total Volume Rental Plan or TVRP

is a type of lease rental that encompasses service charges as well as the cost of owning the equipment and is used where higher copying and printing volumes are anticipated or where companies are keen to have a fixed fully inclusive cost.

The principle is the same as a standard lease rental but rather than being fixed for an agreed period of time, this type of lease is based on an agreed number of copies or prints and ends only when the agreed volume has been reached.

This type of lease should be approached with caution and should only be entered in to if you are absolutely certain that the agreed number of prints is easily achievable for you. You should also be totally confident in your Supplier as if they cease trading you will continue paying for maintenance and supplies you have not had.

There are many instances where companies are left with outdated and unreliable equipment because their circumstances have changed unexpectedly and they have not reached the projected volumes.

Many suppliers will try to sell this product because it has significant benefits for them; they are paid for everything, including the service, at the start of the lease and you are required to use them to service the machine for the entire period that the leasing agreement remains in force, even if there are problems with the device or with the service the supplier provides.

What type of finance? *Cont...*

Hire Purchase (HP)

is a well-established method of financing the purchase of equipment and assets .

Under an HP agreement you pay an initial deposit, with the remainder of the balance and interest paid over a period of time. At the end of the period, ownership of the asset or equipment passes to you.

There are a number of benefits to Hire Purchase: the equipment can be used immediately whilst allowing repayments to be staggered, giving companies better cash flow; HP agreements are easily negotiated and available; you can take advantage of up to date technology to increase company productivity and efficiency; it's possible to recover the writing down costs and VAT and you own the equipment at the end of the agreement.

The drawbacks are that you have to depreciate the asset, making the cost to the company greater; only the interest paid is tax deductible; it can be inflexible and the amount of HP appears on the balance sheet as a debt.

More information?

www.fla.org.uk

www.gov.uk/business-finance-explained

We provide advice and help to companies and organisations of all sizes who need to use asset finance. We only use FLA approved finance providers and we are authorised by the FCA.

Contact us or visit our website

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