

# TYPICAL LEASE FINANCE OPTIONS

PRESENTED

BY

SPACEINDUSTRIES  
LIMITED



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## 1.0 FINANCE OPTION - COSTS

These are based on the Rental Agreement of **£100,000.00**

<b><u>Project:</u> Proposed Fit-out works: Partitions, Ceilings &amp; Mezzanine Floor</b>	
<b>Financing Total: £ 100,000.00</b>	
<b><u>Option A – 3 Years</u></b>	
<b>Monthly Rental:</b>	<b>£3,289.00 + VAT</b>
<b>Lease period:</b>	<b>36 months</b>
<b>Payable:</b>	<b>Monthly</b>
<b>Advance Rentals 3x:</b>	<b>£9,867.00 + VAT (Due on signing)</b>
<b><u>Option B – 5 Years</u></b>	
<b>Monthly Rental:</b>	<b>£2,205.00 + VAT</b>
<b>Lease period:</b>	<b>60 months</b>
<b>Payable:</b>	<b>Monthly</b>
<b>Advance rentals 3x:</b>	<b>£6,615.00 + VAT (Due on Signing)</b>

- On a lease rental contract VAT is payable.
- Subject to formal credit approval
- Subject to status
- An administration fee is payable with the first rental (Maximum £200 + VAT per agreement)
- The terms set out above are given solely upon the understanding that they do not constitute any part of an offer or a contract, but are merely an invitation to treat.

## 2.0 FINANCE OPTION - SUMMARY

Our selected finance specialists specialise in arranging finance for customers buying office furniture and refurbishing or fitting out their working environments. We are the UK's market leader in this particular arena and our team has over 15 years' experience working within the furniture and interiors marketplace.

Many businesses, including SMEs, large corporates and partnerships, have chosen this route to arrange the leasing of their fit-out projects; to enable them to budget efficiently and manage their cash flow effectively.

Support and flexibility is crucial to our partnerships and with credit arrangements in place with a number of key lessors in the UK, we can meet customers' needs for all forms of finance requirements. This range of funding lines gives us a much greater scope for arranging a larger credit line than one bank with one set of underwriters.

In addition to furniture and interiors our lease packages can encompass all aspects of the office environment including computer hardware and software, telecoms, audio visual equipment, photocopiers and faxes.

#### 4.0 WHY LEASE?

It could be cheaper than paying cash – if you pay for refurbishment of your building from cash flow, only a limited percentage is allowable for tax purposes. Because of the ‘intangible’ elements, the Inland Revenue only allows you to claim capital allowances against approximately 60% of the project. However, if you lease the works, the repayments are 100% allowable (unlike any other form of finance, for example a bank loan). This 100% allowance on payments makes leasing the most tax efficient method of refurbishing a building and can work out cheaper than paying cash or borrowing from your bank.

By spreading the costs over a period of 2 to 5 years you can overcome budget limitations and acquire the solution which best meets your needs, rather than that which your budget dictates.

As a leasing specialist, we can include all aspects of your office fit-out within the lease.

In the current climate you may not wish to tie up a credit line from your bank with this type of project, and prefer to leave lines open for future working capital. Using leasing allows you to achieve the project without compromising these lines of credit.

You can add to your existing lease at any point during the term. You can extend the terms and keep the payments the same, or simply increase the payments and keep the end date the same.

At the end of the lease period you have two choices:

1. Continue to rent the installation for the same monthly amount, or
2. Negotiate ownership of the installation for a small charge.

#### 5.0 NOTES REGARDING CAPITAL ALLOWANCES

Tax relief on commercial property expenditure is given in the form of capital allowances. Whether the expenditure relates to the capital costs of a new refurbishment, fit-out or property acquisition, capital allowances will be available on the plant and machinery element.

The downside is that the definition of ‘plant’ in the context of a fit-out is extremely complex. Items that qualify as ‘plant’ are actually defined by exclusion – that is to say it excludes expenditure on the provision of buildings, structures and land. Included in the expression ‘buildings’ are walls, floors and mains services. Needless to say there are therefore a number of elements of a fit-out that do not qualify for capital allowances (including most partitions, doors, frames, skirting and lighting) as they are deemed to be part of the ‘building’. A review of completed projects carried out by Deloitte & Touche calculated that on average 60% of a typical project would qualify for capital allowances.

In April 2012, further changes were made to the tax relief available for capital expenditure. The changes add to earlier announcements and make it increasingly difficult to remember which rules apply to which period. Below is a summary of the main allowances that are effective at this moment in time.

Remember to talk to your accountant for full details of available allowances and your eligibility for them, before acting on any of the information provided here.

### **Annual Investment Allowance**

The AIA was introduced in April 2008 and is available to all businesses. From April 2012 the allowance provides 100% relief on the first £25,000 (subject to restriction for groups / businesses under common control) of expenditure on qualifying plant and machinery. This does not include cars, but does include integral features.

### **Standard Writing Down Allowances**

From April 2012 we go to 18% per annum (reducing balance basis) allowance on expenditure incurred on general qualifying plant and machinery above the £25,000 AIA threshold.

### **Integral Features**

Since April 2008, tax relief for expenditure on 'integral features' (e.g. lifts, hot & cold water systems, air conditioning and electrical and lighting systems) is available at a rate of just 10% per annum. Integral features are, however, eligible for the 100% AIA. To maximise the benefit of the AIA, expenditure on integral features should be offset against the AIA in priority to expenditure incurred on other plant and machinery, for which a 18% writing down allowance is available.

### **Energy Efficient Assets**

Your business can claim 100% tax relief for expenditure incurred on new energy-efficient assets or environmentally beneficial technologies. A full list of qualifying assets can be found at [www.eca.gov.uk](http://www.eca.gov.uk)

In conjunction with our finance partners, we use lease finance to get around the relative inefficiency of Capital Allowances. Basically lease rental payments are fully tax deductible, thereby avoiding the whole Capital Allowance process. The lease funders will claim the allowances and you will simply deduct the lease payments from taxable profits.

The leases are typically written for a period of 5 years and can be used to finance the entire cost of a fit-out and / or furniture requirement. The leases are very similar to the lease rental agreements you would use for photocopiers etc. The process involved in arranging a lease is straightforward, however the leases are unsecured and therefore covenant strength of the lessee is a fundamental issue. The funders are interested in the usual financial information – statutory and management accounts to help them reach their underwriting decision. The underwriting process usually takes up to a week depending on the financial status of the applicant and the size of the project.