

## **Leasing**

According to the institute of chartered accountants of India, “ a lease is an agreement where by the lessor conveys to the lessee, in return for rent , the right to use an asset for an agreed period of time.

### **Types of Lease**

#### 1) Financial Lease

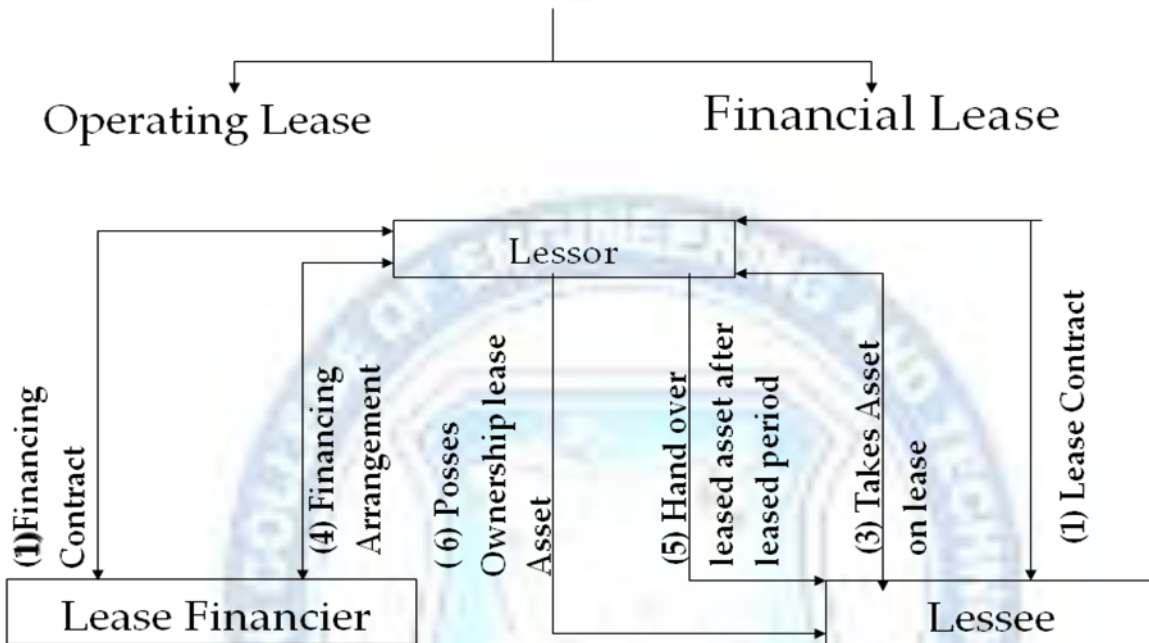
- a) Full pay out lease
- b) True lease

#### 2. Operating Lease

- a) Net Lease
- b) Conveyance type lease
- c) Leverage lease
- d) Sale and lease back
- e) Partial payout lease
- f) Consumer leasing
- g) Ballon Lease
- h) Close end leasing
- i) Open-end leasing
- j) Swap Leasing
- k) Wrap Leasing

### **Leasing Process**

# Leasing Process



## Implications of Sales Tax

Provision Covered:

1. On Purchase Equipment
2. On lease Rentals
3. Sale of Asset

## Difference – Leasing & Hire Purchase

| Leasing | Hire Purchase |
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| <p><b><u>1. Ownership:</u></b><br/>Never Transferred to the lessee</p> <p><b><u>2. Depreciation:</u></b><br/>Lessor and not lessee is entitled to claim depreciation tax shield</p> <p><b><u>3.Capitalization:</u></b><br/>Capitalization of the asset is done in the nooks of the lessor, the leasing company</p> <p><b><u>4. payments:</u></b><br/>Entire lease payments are eligible for tax computation the books of lessee</p> <p><b><u>5. Salvage Value:</u></b><br/>Lessor right to claim benefit of salvage value</p> <p><b><u>6. Magnitude:</u></b><br/>Leasing is used source of finance usually for acquiring high cost of assets such as machinery, shrips, airplanes etc.</p> <p><b><u>7. Down payment:</u></b><br/>Non down payment is required for acquiring asset</p> <p><b><u>8. Reporting:</u></b><br/>In the books of the lessee leased assets are disclosed by way of a note only.</p> | <p>Transferred to the hirer on the payment of the last instalment</p> <p>Hirer (owner) is entitled to claim depreciation tax shield</p> <p>Done in the books of the hirer</p> <p>Hire interest is eligible for tax computation in the books of hirer.</p> <p>Hirer can claim benefit</p> <p>Hire purchase is used source of finance usually relatively low cost of assets such as automobiles, office equipments etc.,</p> <p>20-25% down payment is required</p> <p>The asset bought on hire purchase will be shown as an asset and the amount of instalments payable to the lessor as a liability.</p> |
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| <p><b><u>9. Maintenance of asset:</u></b><br/>Lessor has responsibility to maintenance of Asset.</p> <p><b><u>10. Suitability:</u></b><br/>It is not suitable for low capital enterprises which desire to show a strong asset position in their B/S</p> <p><b><u>11. Name of Asset:</u></b><br/>An asset given on lease by a leasing company is considered as the fixed asset of the lessor</p> <p><b><u>12. Receipts</u></b><br/>All receipts from the lessee is taken into the lessors P &amp; L acc.</p> <p><b><u>13. Income:</u></b><br/>Lessors income declines as the investment O/S in the lease declines.</p> | <p>Hirer has responsibility – maintenance</p> <p>It is highly suitable low capital enterprises.</p> <p>The hire vendor normally shows the asset let under HP either as stock in trade or as receivables</p> <p>Only the interest portion is taken into the hire ventors P&amp;L acc.</p> <p>In the case of HP transactions, finance charges are allocated to the HP period equally.</p> |
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