

Finlease

Comparative treatments of a finance and operating lease

Accounting	Finance Lease	Operating Lease
<p>Balance sheet</p>	<p>The customer records the lease as an asset and an obligation to pay</p>	<p>An operating lease contract is off-balance sheet for the lessee</p>
<p>Profit & Loss</p>	<p>Rentals are apportioned between finance charge and a reduction of the outstanding liability</p>	<p>Rental payments are charged to Profit and Loss as an expense</p>
<p>Income Tax</p>	<p>Investment allowance (plant and equipment only) and annual capital allowances on leased assets accrue to the customer. These allowances are calculated based on total rental amounts (i.e. capital plus interests).</p> <p>Rental payments are not tax deductible against income</p>	<p>Investment allowance (plant and equipment only) and annual capital allowances on leased assets accrue to the leasing company. Therefore, such allowances are NOT available to the customer</p>
<p>VAT</p>	<p>Finance lease rentals are exempt from VAT. VAT charged on purchase of the leased asset remains the liability of the customer and is not funded by the leasing company.</p> <p>The VAT paid can, however, be claimed back by the lessee subject to the provisions of the VAT Act</p> <p>NO VAT is charged on the exercise of the lessee's option to purchase the asset at the end of the lease contract</p>	<p>Operating lease rentals are subject to VAT. The customer can reclaim the VAT payable subject to the provisions of the VAT Act</p>