

What is a finance lease?

Assets such as equipment, plant and machinery are essential to a business's ability to function, meet new orders and grow, but it isn't always viable or cost-effective to purchase an asset. This is particularly true when it is only required for a short period, for instance to cater for a very specific order, as it can damage the cash flow of the business and affect its immediate financial health.

Finance leases provide a simple and effective solution to this problem. The process sees an asset finance company purchase the required asset on the business's behalf before leasing it back for a fixed period. Not only does it therefore allow the company to benefit from the asset without having to purchase it outright, but it also evades the problem with asset depreciation as it grows older.

Meanwhile, the fixed monthly repayment costs will help with cash flow management. Although a finance lease sees the lessee responsible for the asset's repair and maintenance costs during the term of the lease, operating leases ensure the asset finance company is liable for repairs.

Unlike hire purchase, both options allow the lease to be renegotiated at the end of the repayment period. If no longer required? Simple, the leasing company arranges its sale to a third party, with the business keeping a portion of the takings.

What are the benefits of a finance lease?

- Finance leases avoid the need for a business to pay for an asset outright, keeping working capital free to invest in your day-to-day activities;
- They also negate the problems with asset depreciation; as your business never owns the asset outright, you will not have to sell the asset at a second-hand price;
- It is ideal for companies who require the use of an asset for a short period;
- Businesses are able to deduct the cost of lease rentals from taxable income as a trading expense;
- Repayments on the lease are made in monthly instalments at a fixed rate, making cash flow management a simple task;
- Asset finance companies are responsible for the asset's maintenance through an operating lease, ensuring your company will not face any unexpected costs.

How can Hilton-Baird help?

Depending on a business's specific requirements, it could be that other asset finance or wider commercial finance solutions are more suitable. As a commercial finance broker that specialises in asset based finance, Hilton-Baird Financial Solutions can explain the benefits of both products and introduce your business to the solution that fits.

To find out more about our credentials and how we can assist, call our team on 0800 9774833 or email info@hiltonbaird.co.uk.

Alternatively, get an [asset finance quote](#) to find out how much cash you could release against the value of your existing assets.