The FEA Guide to Leasing Foodservice Equipment

A new lease of life…

When times are tough and foodservice operators need to buy a new commercial fridge, oven, dishwasher or other professional appliance, finding the cash to buy outright can be nigh on impossible. Which is where alternative finance options, such as leasing, come into their own. In fact, the COVID-19 crisis has led to the development of increasingly flexible finance packages, notably with features like low-start payments or even payment holidays, especially at the beginning of the arrangement, designed to give the operator a leg up to help build business.

Why lease? Because you're spreading the cost of the equipment, you're helping your cash flow, and you can get tax breaks. Plus, at the end of the lease, there's usually the option to buy.

Another key benefit with alternative finance options is that, in most cases, they won't affect your other credit lines, such as bank loans and overdrafts – and that could be hugely important in a tough business climate.

Alternative finance options also help you overcome budget restrictions that otherwise might prevent you from buying the best equipment. You might ask, why invest in the best equipment anyway? If something needs replacing, why not buy a cheap substitute, or even go second hand? Because modern, quality equipment is going to make economic sense not only in the long term, but also in the short and medium term, too. The latest model will be more energy efficient, so it will have lower running costs, which will save you money, from day one. It'll improve productivity, so you'll be able to cook more, wash more, store more and so on – again, from day one. Because it will save time, staff will be able to get on with other tasks. It will probably be more compact than an older model, so it'll save space, too. Plus, a quality appliance will last longer than a cheaper equivalent.

Investing in good quality equipment is the best way to enhance your business. Leasing, and other alternative finance options, are a great way to benefit from the latest models – in fact, with many leasing arrangements, you can upgrade equipment to the latest version, to help you stay ahead.

FAQs

What's a lease?

In the context of foodservice equipment, a lease is a contract whereby a person or company agrees to pay for the use of equipment over a given period of time – typically from one to five years. A single lease may cover one appliance or it could cover several.

What's the difference between a lease, HP and renting?

With a lease there will be the option to own, with HP you are guaranteed ownership. With rental (aka an operating lease) there is usually no option to own. All three offer various tax benefits (talk to your accountant or a tax advisor to see which will suit you best). With a lease or rental agreement the upfront cost is low, with HP a deposit is required.

Who owns the equipment at the end of the lease?

At the end of a lease agreement the equipment is owned by the finance company, however there is usually the opportunity to indefinitely retain the asset for a fee. In other words, if you take out the lease, you can keep the equipment when it ends.

Are there tax benefits?

Leasing is tax efficient. How much tax relief you get will depend on your business – each one is different. 100% of payments can be classed as an expense for business purposes. To find out about your specific benefits, seek advice from your accountant or a tax advisor.

What about VAT – does the lease cover it? Can I reclaim it?

Yes and yes. Rather than all of the VAT on the cash price being due up front like a Hire Purchase, each payment attracts VAT and is fully reclaimable.

If I settle the lease early, will I get a discount?

You should get a discount based on the interest element remaining on the lease.

Will I need to insure the leased equipment?

Although you don't legally own the equipment during the lease, you need to have adequate insurance to cover it. Otherwise you will need to pay 'asset protection' alongside the lease.

What about the equipment warranty? Is it valid under a lease?

Yes. In the event of equipment failure you would contact the supplier. Some leasing companies can incorporate a warranty of up to five years in a lease, sometimes maintenance as well. It's worth looking into the options.

Would the supplier or manufacturer still come to train staff on the equipment?

Yes, assuming that they offer this on standard cash sales.

What about the small print? Anything to be wary of?

In terms of fees, there are documentation fees to set up the lease (circa £150.00 +VAT on average), plus annual service fees (circa £30.00 +VAT on average).

As already pointed out, you need to make sure equipment is adequately insured, otherwise you may be required to pay asset protection on top, which varies based on the equipment. However, this won't apply to most businesses as they will already have relevant insurance that covers the equipment anyway.

There are also late payment fees if you fall behind on the lease payments.

Where can I get unbiased advice?

Your accountant should be able to help.

These FEA associate members have specialist knowledge of the foodservice sector and offer leasing deals specifically designed for commercial catering equipment:

Shire Leasing	**www.shireleasing.co.uk**
Johnson Reed	**www.johnsonreed.co.uk**
Academy Leasing	**www.academyleasing.com**

The Foodservice Equipment Association (FEA) is the independent, authoritative voice of the foodservice equipment industry, representing nearly 200 companies who supply, service and maintain all types of commercial catering equipment - from utensils to full kitchen schemes. For more information on FEA visit www.fea.org.uk