STARTING A PRIVATE PRACTICE: EQUIPMENT

Do I hire, lease or buy?

Ian Tongue explains the pros and cons of the different financing options for equipment purchases

MANY SPECIALTIES require a consultant to invest in equipment to move the business forward.

This can frequently be a significant financial commitment which may require external funding, savings or a combination.

Cosmetic work in particular is subject to fast-moving technology, making the method of financing medical equipment purchases very important, as you do not want to be paying for obsolete equipment.

Options for funding

There is a saying 'if it depreciates, lease it', which for many assets may be a good idea – for example, a car. But what about medical equipment?

In order to answer this you need to look at the cost of leasing compared to a lease purchase or hire purchase/loan arrangement and the tax relief available under the various options.

From the finance company's point of view, it will pay out in full to the equipment provider and obviously wants to make a profit margin on top.

When leasing an asset such as a car, it is clear that the car will have a life at the end of a typical lease term and therefore this is factored into the lease rentals, making them lower.

However, with specialist medical equipment, it is common for leases to last between three and five years and, at the end of the lease term, the asset has reached the end of its life.

Therefore, the cost between buying and leasing may not be that significant and I would suggest that you always explore both options making comparisons of costs and effect on cash flow.

Should I buy it?

Buying an asset for cash will result in the finance costs being saved but, clearly, this needs to be weighed against other uses for the money. A loan or hire purchase (HP) agreement could be obtained which buys the asset over a set period: say, four to five years.

Under the above options, the asset should attract capital allowances for tax purposes. At present, there is a special relief known as the Annual Investment Allowance (AIA) which was introduced to encourage capital investment.

The AIA allows most businesses to purchase significant equipment and receive 100% write-off of the cost in the year of acquisition even though you may be financing it over five years. This could be a significant cash flow advantage in funding the equipment.

At present, the AIA is £100,000 for acquisitions made up to 5 April 2012 (31 March 2012 for companies) and this reduces to £25,000 from 6 April 2012. (1 April 2012 for companies). Therefore, if you are considering buying expensive equipment in the near future, it is worthwhile to review the timing of purchase to ensure that maximum AIA is available.

It is worth noting that for business year-ends which are not 5 April (or 31 March) you should speak with your accountant to determine how much AIA is available to you.

For example, an asset costing £50,000 (including VAT) is bought using a loan over five years at 9.5% APR and the business is not VAT registered. This would cost in the region of £1,050 per month to fund or £12,600 a year.

Assuming a 5 April 2012 year-end for the business and acquisition date between 6 April 2011 and 5 April 2012 and no other significant equipment purchases in the year, the full £50,000 would be allowed as a deduction against profit in the year of acquisition.

In addition to this, the interest incurred on the loan is also tax-deductable. Clearly, this could be a significant cash flow advantage to have all of the tax allowances up front in year one.

Should I lease?

Leasing can take several forms ranging from straightforward hiring of the equipment, which is never yours, to lease purchasing, which effectively acts in a similar way to buying it with a balloon payment at the end.

> The key thing is to obtain quotes for more than one method of financing and determine which is best for you

If equipment is hired, the cost is deductible against profits. Therefore, if an asset was £1,000 a month to hire, you would see an expense of £12,000 a year in the accounts.

As the asset is never yours and you do not normally keep it for its entire life, it is not treated as an asset of the business. A prime example of this is contract hiring a car – although in this context the tax-deductible element of the rentals may be restricted, depending on emissions.

Lease purchase is common and benefits can be obtained from finance companies being able to acquire the assets cheaper than you would be able to. Assuming the cost of financing (effective APR – annual percentage rate) is competitive, the payments could be lower.

Again, the key thing is to obtain quotes for more than one method of financing and work with your accountant to determine which is best for you.

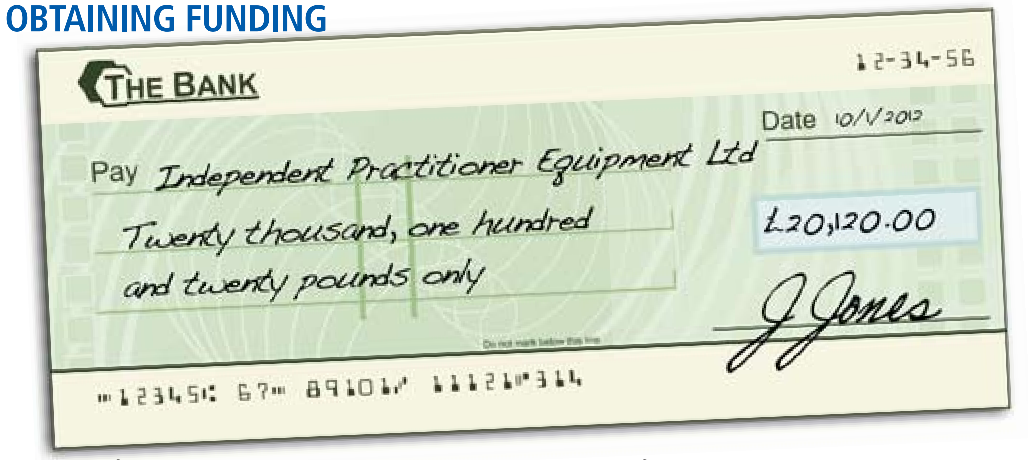
Under a lease purchase agreement, it is common for the asset to be held for most or all of its economic life and for the payments to exceed the purchase price.

Despite legal title not always passing across for accounting and tax purposes, the asset is regarded as yours. This results in the asset being included within the accounts in the same way as buying it and therefore the AIA is available, which could be worth up to £100,000 at current rates.

■ **Next month: Going to work abroad: key considerations**

Ian Tongue is a partner at Sandison Easson & Co, specialist medical chartered accountants

OBTAINING FUNDING



Obtaining funding has become more challenging in recent years but, generally speaking, medics are still regarded as a safe bet and most should be able to obtain funding for substantial asset purchases.

Most finance providers will request the business's accounts and will usually request details of your personal finances. Depending on the trading history and asset value, they may also request some form of business plan.

Despite the finance company usually having a legal charge over the equipment, it is common for personal guarantees to be given. Therefore, if you trade as a company, it is unlikely that this will not be requested and, should the business fail, you would be personally liable for the remaining costs under the agreement in the same way a sole trader or partnership would be.

Another consideration is the maintenance and support of the equipment, which can be a significant expense. When you are obtaining quotes, ensure that you understand if the payments include maintenance.

If the asset is insured by you, it is worth considering GAP insurance, as the insurance company may pay out only market value for the equipment, which could be substantially lower than the amount owed on the agreement.

The decision to invest in expensive equipment can be a difficult one, but often allows the business to grow faster and keep pace with modern treatments.

When looking at buying equipment, obtain quotes for different financing methods and discuss them with your accountant.

If you know that you will need to invest, consider the timing of acquisition to maximise any available tax relief.

While your medical team handles the everyday operations, make sure you stay up to the minute with the best there is in independent healthcare business coverage...

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