WHY RENTAL?

The benefits for an organization to enter into a rental agreement are as follows:

1. PSYCHOLOGY OF USE OVER OWNERSHIP

From international studies it is apparent that the use of a piece of equipment is far more important to the production income than a piece of paper conveying title to the equipment. It is the use of equipment that produces profit, not ownership. An indication of this trend is the saving from nett asset value to nett income before tax as the primary measurement of a company's financial strength and success.

2. OBSOLESCENCE HEDGE

The penalties attached to ownership of high technology equipment are that upon purchasing such equipment, replacement models have often already been developed, rendering the equipment purchased outmoded and obsolescent.

3. OFF-BALANCE SHEET FINANCING

Subject to compliance with certain legal and accounting requirements, rentals are a ***non-balance sheet item***, and hence will not affect the financial gearing of the company, and in addition, will have no effect on the return on assets managed.

4. INFLATION HEDGE

When compared to conventional forms of financing rental agreements, with their flexible structures off a hedge against inflation. Longer periods, no deposits and annual escalations allow one to pay future rentals with inflated rands.

5. TAX ADVANTAGES TO USERS

Firstly, VAT is payable on the monthly rentals as they fall due and not on the capital value of the equipment as in other forms of financing. In the event of premature termination of the rental agreement by upgrading of the equipment, VAT has only been paid for the duration of use, and not for the whole period. This represents a substantial saving. In addition, rental, as an operating expense, are fully tax deductible.

6. DIVERSIFICATION OF FINANCING SOURCES

Large companies obviously require financing for a wide spectrum of assets and projects. Vehicles, buildings, etc, are but a few.
Rental facilities offer the end-user a new source of finance, not limited to facilities available from traditional sources, due to its off-balance sheet nature.

7. CONSERVATION OF WORKING CAPITAL

As no deposits or initial lump-sum payment are required, a rental offers a low entry level of cost, reducing the use of working capital.

8. AFTER TAXATION PRESENT VALUE OF COST

In terms of total after-tax present value of costs, rental may provide a lower cost than conventional financing. However, it is important to note that this situation only occurs when the Renter is in a tax-paying situation. With our currently high level of inflation structures which defer cost, this will result in reduced present value cost after inflation cost accounting.

9. CONVENIENCE TO THE USER

In addition to the benefits of a simplified decision making process, rental, due to its off-balance sheet nature, requires much less bookkeeping than outright purchases and conventional form of financing. Purchases or leased assets must be capitalized, depreciated, and finance charges must be calculated on leases – all of this requires time and effort. Prior to equipment purchasing, most companies require a rigorous capital budgeting analysis. Capital budgeting decisions are in fact often made at board level.
Because of their balance sheet implications, the same applies to financial leases and instalment sales. In the case of rental, decision making need no longer take place at board level. An Opex decision can take place when capital has already been allocated to other projects.

10. FLEXIBILITY

As constraints of the Usury Act do not affect rental agreements, payment structures and terms are only limited by the economic lifespan of the equipment and the end-users budgetary constraints.

11. MAINTAINED

As ownership of the equipment is not vested in the user, the owners shall ensure that the equipment is fully maintained and in operational order at all times by means of a Service Level Agreement signed between the client and the supplier of the goods.

PROPOSED EQUIPMENT ON RENTALS

No capital expenditure is required.
The monthly cost is an operating expense to your business.
The first instalment only becomes payable once the solution has been implemented.
Operational expenses are fully tax deductible.
No financial exposure is incurred by having to make progress payments.
A fixed budget can be maintained with minimal or no escalation during the contract period.