



ADVANTAGES OF RENTALS

1. INCOME TAX ADVANTAGES

A rental is considered as an operating expense and is therefore fully tax deductible

2. VAT IMPLICATIONS

Savings in VAT are achieved due to the tax not being capitalised up front on the total investment, but rather paid with each rental. The VAT on the rental is regarded as an input tax and may be set off against any output tax collected

3. OFF-BALANCE SHEET FINANCING

Rental agreements structured in terms of accounting code AC 105 are not capitalised on the Balance Sheet, thus improving liquidity, profitability and solvency ratios

4. CONVENIENCE

Savings in accounting costs. No requirement for fixed asset registers and/or records reflecting capital and interest arising on financial leases

5. CONSERVATION OF WORKING CAPITAL

As no deposits are required, rentals offer a lower cost entry level, therefor reducing the use of working capital

6. DIVERSIFICATION OF FINANCIAL RESOURCES

Rental facilities offer the end-user a new source of finance, existing credit facilities from the bank sector are therefor not affected

7. OBSOLESCENCE HEDGE

Rapid technological obsolescence places a burden on the owner of Hi-Tech equipment. With rental agreements the end-user may upgrade the equipment at any stage.

8. FLEXIBILITY

The restraints of the Usury Act do not affect rental agreements. Payment structures are thus structured according to the economic life-span of the equipment and the end-user's budget constraints.

9. INFLATION HEDGE

The flexible nature of rental agreements offer a hedge against inflation. Longer periods, no deposits and annual escalations result in a lower entry cost and allow the user to pay future rentals with inflated money.

10. AFTER TAX NET PRESENT VALUE OF COST

With relatively high levels of inflation, structures that defer costs will result in reductions in present value costs after inflation cost accounting.