FACT SHEET

HOW ASSET FINANCE CAN HELP YOUR BUSINESS GROW

As a business owner, it's likely you have no shortage of competing demands on your capital. In your quest for growth, you might want to hire additional staff, move to bigger premises, increase production capacity, diversify your product range or spend more on marketing.

Using traditional loans or cash to pay for new equipment and vehicles can put a strain on your cash flow and tie up funds that could be used to help your goal of growing your business.

Asset finance can be a more economical option. It can allow you to obtain the assets you need to expand without incurring the high upfront costs associated with buying vehicles and equipment.

Instead of acquiring an asset outright, asset financing allows you to spread the expense into more manageable, monthly payments over an agreed term.

ASSET FINANCE EXPLAINED

There are *two* main types of asset finance: finance leases, also known as 'hire purchase agreements'; and operating leases.

FINANCE LEASE

Allows your business to buy a vehicle or equipment on credit. Your chosen lender purchases the equipment on your behalf and you pay it off in instalments. Once you've paid the last instalment, you have the option to purchase the item for a specified sum. This amount is referred to as a residual or balloon payment.

OPERATING LEASE

Gives your business the use of a vehicle or piece of equipment for the term of the lease agreement. After than time, ownership of the leased item reverts to the lessor.

The Australian Tax Office allows some lease payments to be treated as tax deductible expenses. Other lease payments are treated as depreciation expenses. It's important to talk to your accountant or tax advisor before entering into an asset finance agreement to ensure you understand the tax implications for your business.

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THERE'S ALMOST NOTHING YOU CAN'T LEASE

In the past, most leased items consisted of what were known as **hard assets** - tangible, physical items with a readily ascertained resale value.

Think:

- buildings
- Motor vehicles
- Machinery
- Heavy equipment and the like.

Today, businesses can lease a much broader range of items, including a vast array of **soft assets**. These can be intangible items whose resale value is negligible, or difficult to determine.

They can include:

- kitchen and catering equipment
- Fitness equipment
- Audio-visual equipment
- Office furniture
- Security systems
- Telecommunications infrastructure, and
- Computer hardware and software

Many business owners choose to lease hardware and software they need to run their enterprises rather than buying it outright. It's also possible to include intangibles, such as cloud storage network and network support, in an asset finance agreement.

Leasing information technology products and services can allow your business to avoid the high upfront costs that can put these assets out of reach for smaller enterprises. Information technology changes quickly, and leasing, rather than buying, can mean you're not locked in to an ageing or obsolete solution because you don't have the funds to replace it.

Lease terms can vary from as little as 12 months to as long as seven years. Soft assets generally have shorter lease terms while hard assets, which depreciate more slowly, are typically leased over longer periods. The longer the lease term, the lower the monthly repayments will be.

WANT TO KNOW MORE?

Having ready access to the assets you need to run and grow your business is important. Without it, you may not be able to take advantage of opportunities to expand, diversify and build your bottom line.

Using asset finance to acquire items can help you spread the costs of expensive items over a manageable period and reduce the chances of a cash flow crunch derailing your growth.

Brokers can talk you through the range of finance options that may be available to your business. We can help you identify and secure the commercial finance that best meets the needs of your growing enterprise.

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