



[Frequently Asked Questions]

Lease Financing

Subject:	Business Economics
Course:	B.A., 3rd Semester, Undergraduate
Paper No. & Title:	Paper – 303 Business Finance
Unit No. & Title:	Unit - 5 Lease Financing
Lecture No. & Title:	Lecture – 2 Lease Financing

Frequently Asked Questions

Q1. What type of equipments are generally finances through Lease Financing?

A1. Any new or used land, building, machineries, vehicles, computers, light aircraft and helicopters, office equipment, solid waste disposal equipment, telecommunication system, software or any type of asset which is more expensive and can be required to produce goods or provide services.

Q2. Who are responsible for the equipment damaged within lease term?

A2. Most equipment is covered by the manufacturer's warranty, which is having with lessor. Beyond that, lessee is responsible for repairs and maintenance and to keep the equipment in good working order and insured at all times

Q3. Is the interest amount includes a lease payment?

A3. There is no "interest" in a lease payment. Lessee pays the lease for the use of the asset over the lease term like tenant uses the house and paying rent for it.

Q4. Are lease payments deductible from tax?

A4. Lease payment can be written off as an operating expense and hence it is deductible from Tax.

Q5. What is the difference between a lease and a loan?

A5. In Lease Financing, the Lessor retains legal ownership of the equipment during the term of the lease, which may not be in case of Term loan or Mortgage loan.

Q6. What are the options available to lessee when lease term is expired?

A6. Lessee can return the assets to lessor or can extend lease terms or can purchase the equipment or can finance the equipment on swap lease.

Q7. Is there any advantage received by lessee, if he pays lease payment in advance?

A7. No, there is no advantage received to lessee, if he pays lease payment early, as lease payment does not include interest.

Q8. Who can use Swap lease?

A8. Anyone with an in-process lease, whose leasing company allows lease transfers, can use Swap lease to "sell" their lease.

Q9. How can one decide to take equipment on lease?

A9. Person can compare the Net present value in buying option with the Net present value in Leasing option. He can choose the option from Lease or Buy on the basis of whichever is having higher NPV.

Q10. Is there any other advantage for lessor except receiving lease?

A10. Yes, Lessor is the owner of the assets. Though he is not using the assets, he can deduct depreciation from value of assets

purchased shown in balance. It will help him to reduce Net Profit and ultimately it helps to save the tax payment.