

## A Comparison of the Benefits of Higher Purchase (HP) against Purchase of Assets

This table shows the differences:

<i>Alternative</i>	Finance lease or HP	Operating lease	Outright purchase
<i>Typical example</i>	Car/tractor: £20k – capital allowances	Photocopier maintained by supplier and returned at end of term.	Second Hand machinery
<i>Initial Bookkeeping Debit/ Credit</i>	Dr Asset Dr Input VAT/ Cr HP Liability Cr Bank	None	Dr Asset Dr Input VAT/ Cr Bank
<i>Accrual of annual Interest</i>	Dr interest paid Cr HP liability	None	None
<i>Subsequent Bookkeeping Debit/ Credit</i>	Payments: Dr HP liability Cr bank Depreciation also	Dr p&l lease charge Dr Input VAT/ Cr bank – usually a standing order	Depreciation
<i>VAT</i>	100% paid and recovered upfront	Input tax recovered as paid out.	100% paid and recovered upfront
<i>Corporation/ Income tax recovered</i>	Interest can be calculated on the rule of 78 – you then get early tax relief on the interest	Recovered as costs are paid out	None
<i>Allowances Capital</i>	Capital allowances from start.	No capital allowances.	Capital allowances from start
<i>Judgement</i>	Spreads long term cost. HP can be at a dear rate. Interest needs to be recovered advantageously.		Avoids paying interest.

### Notes

In loss making bodies its better to avoid an HP interest charge (which will not be tax relievble). It may be better to lease to reduce the cashflow cost. If you buy or use HP, do not claim redundant capital allowances.

You should generally try to buy outright, because HP interest tends to be more than other forms. But there are exceptions. The interest on HP may be cheaper than other forms (zero rate on some cars for example). Borrowing on HP may allow less finance to be needed in less profitable associates.

HP interest can be front-loaded and therefore the tax relief can be better than for a loan of an equivalent interest rate.