Leasing As An Effective Financial and Credit Mechanism for Investing in Enterprises

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Abstract. *The article reflects the importance of leasing in the investment activities of enterprises, its economic significance and the financial and economic efficiency of leasing. The views of scholars on this issue have been studied. The advantages and benefits of leasing as part of other methods of financing the enterprise are studied in the structure of the financial-credit mechanism of leasing relations. Formulas have been proposed to determine the cost-effectiveness and relative efficiency of leasing in enterprises. In the economic and financial assessment of the effectiveness of the use of the leasing project, relevant scientific recommendations on tax savings are given.*

Keywords: *leasing, leasing efficiency, tax savings, commission, additional costs, depreciation ratio.*

Introduction

The system of investment production activities in enterprises is financed by the investment project, and without financial support, this term completely loses its meaning.

Leasing (financing by the lessee for the effective use of the leased asset) plays an important role in financing real capital investments in today's conditions, when many enterprises have a shortage of own funds.

In essence, a lease is not a source of ownership, but a method of financing the efficient use of property by the lessee on a contractual basis [1]. Thus, leasing is a set of financial and property contractual relations, which allows you to own many types of property and technologies of innovative importance, as well as the opportunity to use it on a contractual basis, for a specified period of time.

The basis of a contractual leasing relationship is a relationship of temporary effective use of property allocated on the basis of this agreement, which distinguishes it from other methods of financing. It should be noted that leasing in Uzbekistan is not yet sufficiently covered and is a relatively little-studied method of financing in the economic literature, the published work on which is somewhat superficial and slightly different from each other. Legislative regulations governing leasing in the country are also insufficient and imperfect. In general, the scientific information gap related to leasing is shrinking very slowly.

In short, leasing as a market category has not been sufficiently studied not only theoretically but also practically, and this situation leads to underutilization of its potential. In turn, all this determines the urgency of comprehensive coverage of this problem.

Literature review

First of all, let us dwell on the traditional definition of this term in the West, confirming that the concept of leasing originated abroad.

According to the French scientist D. Kreme-Israel, a lease is a set of operations that allows the property to be put into operation in exchange for periodic payments, and in some cases includes an option to purchase [2].

Another French scholar, J. Pas, referred to leasing as the leasing of property by a trading organization through an option to purchase for any purpose.

K.Druri and S.Braunds in their research focused on the model of leasing valuation, noting that these models are equated to debt relations because enterprises do not have unlimited access to credit, leasing requires the company to make a number of mandatory payments [4].

Based on these considerations, leasing is an important source of financing that allows McLean to repay effective periodic debts (loans) in installments. Emphasized that in his view, in practice, a financial lease is very similar to a secured loan and the factors that the lessor and the lessee take into account are almost the same [5].

Russian scholars differ on the classical definitions of the term "leasing" given by Western scholars. Some Russian economists approached leasing as the use of means of production rather than ownership.

While F.G. Pankratov and N.F. Soldatova interpreted leasing as a financial transaction involving the granting of the right to use movable and immovable property belonging to the lessor for a long period (more than one year) during the term of the contract [7], the third group of scientists [8] defined the lease as an infusion of fixed capital on the condition of repayment.

N. Chekmaryova interpreted leasing as a method of lending fixed assets (business activities) as an alternative to a bank loan, taking into account the financial aspects of the relationship and the use of equipment on terms of maturity, repayment and payment [9].

Indeed, leasing is a complex socio-economic phenomenon that combines the above forms of relationship. However, such an approach limits the scope of leasing, i.e., bringing it into the form of entrepreneurial activity actually negates its application to individuals and budget organizations. In practice, this situation prevents leasing companies from providing leasing services to potential customers.

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The main part

In other methods of financing an enterprise, cash emerges as the object of the relationship, while in leasing, the lessor and the lessee enter into a contractual relationship for the property use of capital. This reflects the specifics of the financial-credit mechanism of leasing relations, ie the sum of methods and ways of organizing financing, the management of commercial financial relations and the promotion of financial stability between the parties to the lease (Figure 1).

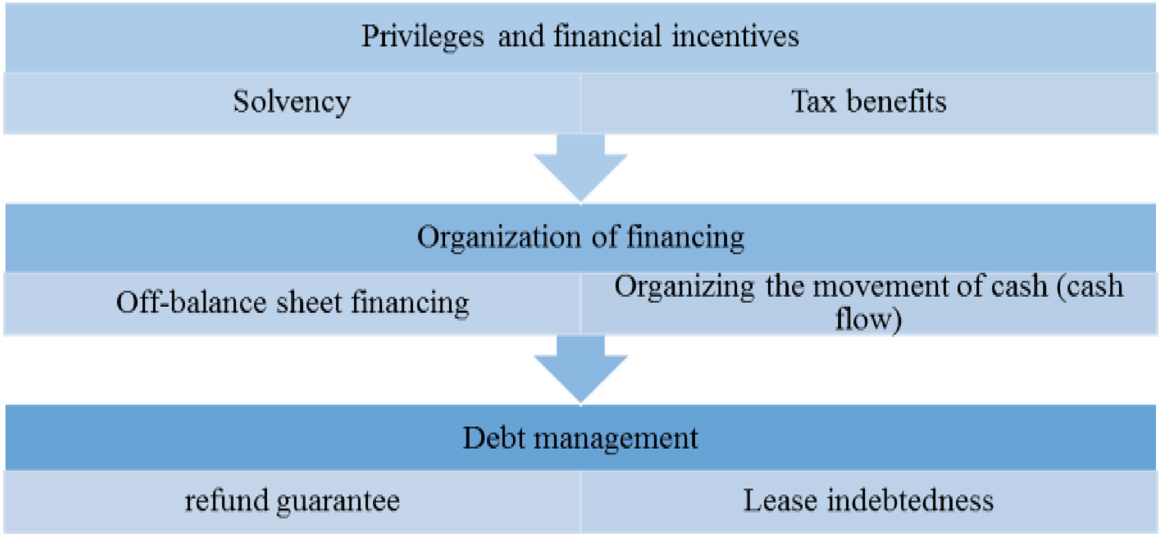

Figure 1. Financial and credit mechanism of leasing relations

Figure 1 above shows the advantages of leasing and its incentives:

- exemptions from taxation of the total amount of leasing funds:

a) savings from property tax on the lessee as a result of accounting for property on the lessor's balance sheet;

b) due to the fact that lease payments are included in the cost of goods produced by the lessee, the taxable base for income tax is naturally reduced;

c) tax benefits may also be applied to the lessor by providing tax benefits.

- the principal payments on the lease and the amount of depreciation on the leased object are simultaneously included in the lease payments, which allows the lessee to reduce the risk of insolvency associated with a stable income from the use of the leased object;
- does not create a need for the lessee to direct its own funds to make lease payments using the lease;
- Leasing relations allow the lessor to receive from the lessee, in addition to lease payments, an advance payment of 15-30% of the total value of the lease and even more.

In leasing relations, the leased property is not reflected in the balance sheet of the lessee, with a guarantee of one hundred percent crediting of the contract, ie the right of ownership is retained by the lessor.

At the same time, the lease relationship does not increase the lessee’s assets, as the financial process is based on off-balance sheet financing of fixed assets and ensures the flexibility of financial transactions between the parties. This flexibility is ensured by the fact that the lease agreement reflects the lessor's requirements for the reduction, increase and evenly distributed movement of cash (lease payments). Operational, financial and repayable leases with specific features and benefits can be used to develop the leasing mechanism between the parties to the agreement.

Despite the change in forms of ownership, adherence to market principles of management, modern national industry, agriculture and other sectors are still operating under the influence of high levels of financial risk. This is reflected in the emphasis on short-term sources of financing and a lack of understanding of the content of leasing.

The above-mentioned national economy requires the presence of advanced marketing and management within the enterprise to lead the sector enterprises to a sustainable growth trajectory, which is reflected in the combination of high economic growth and investment security. Their methods and techniques should cover all possible market mechanisms, including the leasing process (Figure 2).

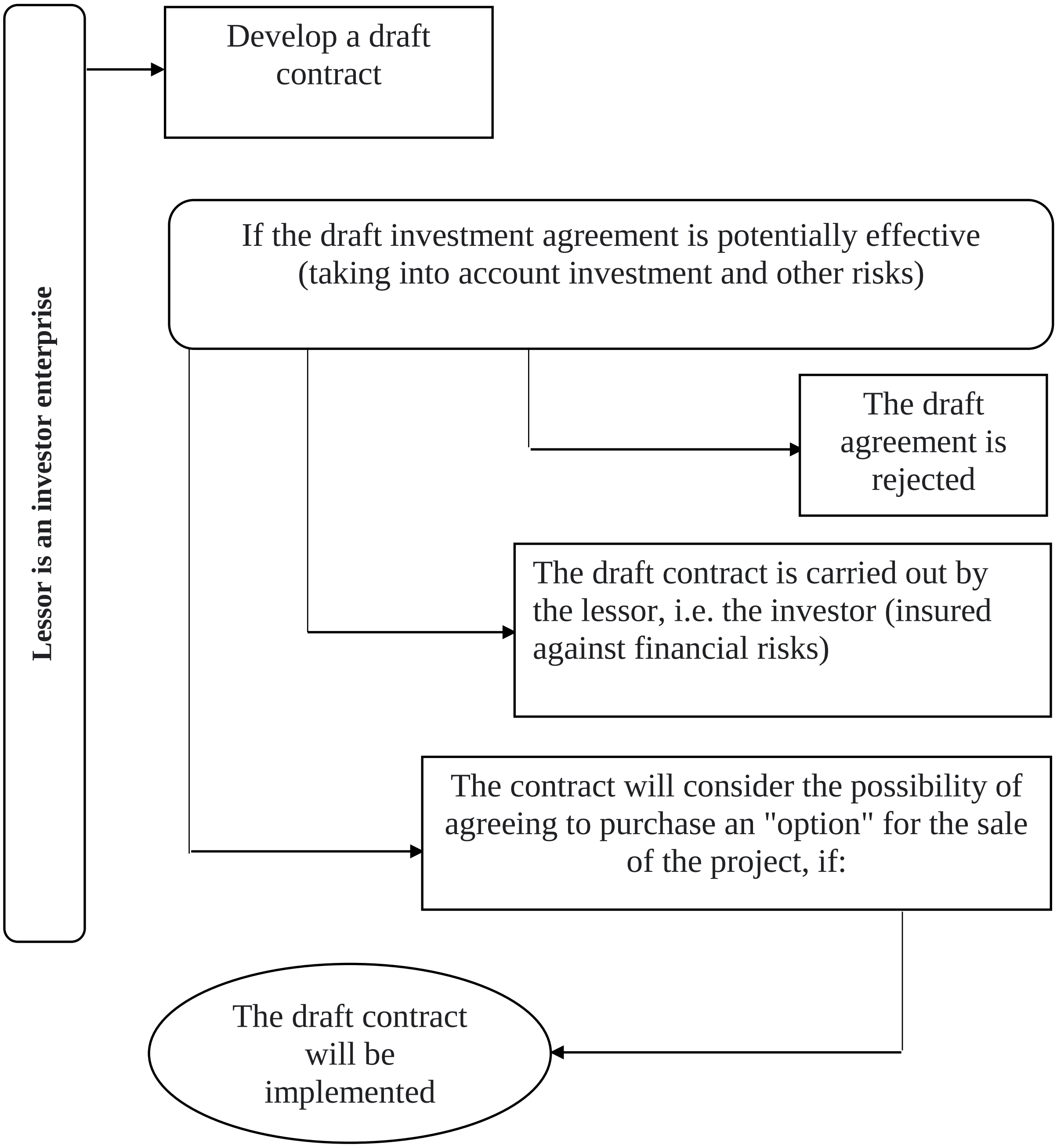

Figure 2. Mechanism for making an investment decision (draft contract) on leasing

In the leasing process, the relationship between the parties is as follows:

1. The lessor independently selects the seller (manufacturer) of the property and sends an application to the lessee to carry out leasing operations. The application must be accompanied by the following documents: a basic description of the project, information about the object of the transaction, a passport of the enterprise and a personal sheet of the head of the lessee, etc.

2. After a positive decision, the lessor enters into a contract of sale with the manufacturer (seller) of the property for the purchase of property and at the same time a lease agreement with the lessee. Acceptance of the property for use is carried out on the basis of an acceptance certificate signed between the parties.

Payment of property tax, if the contract is concluded on vehicles, tax payments from vehicle owners are made by the lessor in the manner prescribed by the Tax Code.

The organization of operational and financial leasing is shown in Figure 3 below.

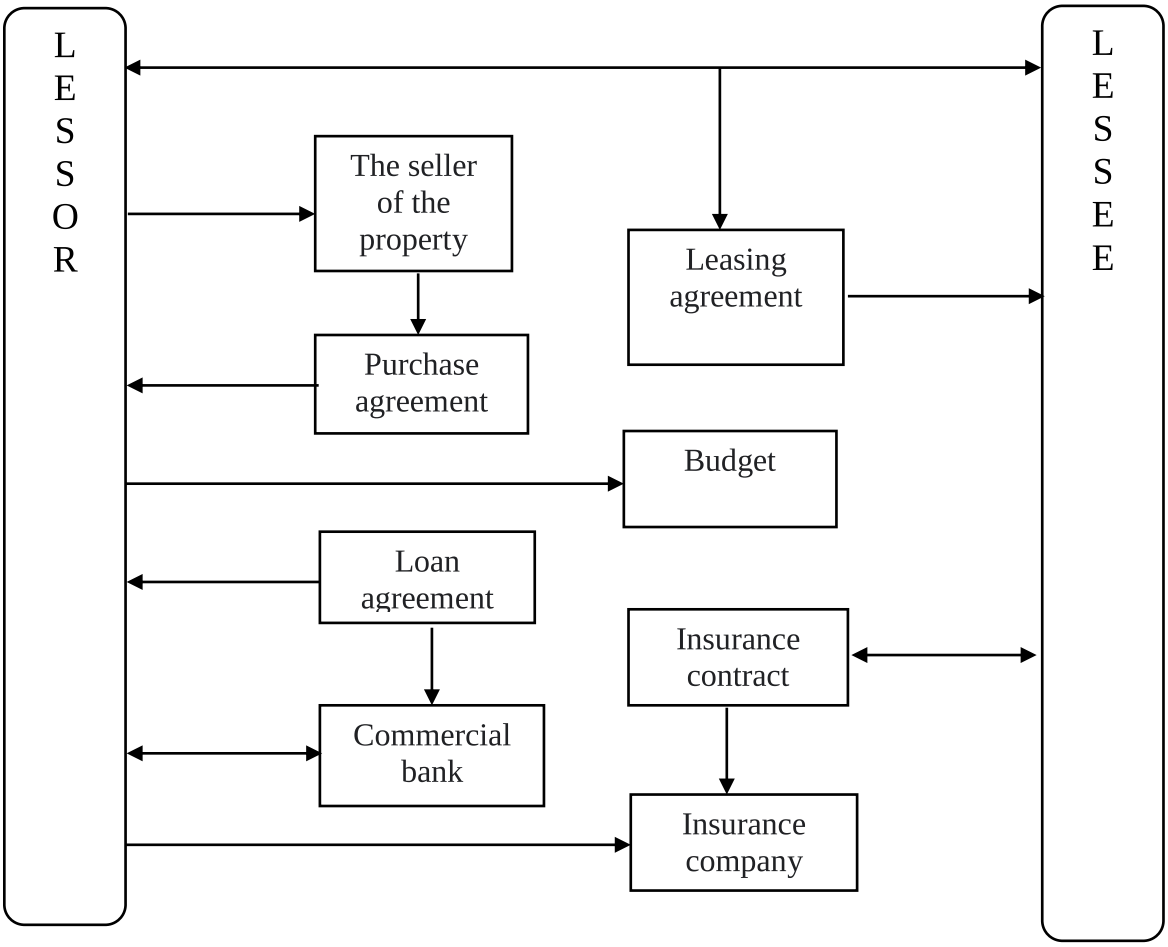

Figure 3. The scheme of organization of operational and financial leasing

It should be noted that the sources of capital formation, taking into account the conditions of efficiency of leasing operations, should be considered:

- Own funds that the company can direct to investment activities;
- Loans received from investors for a specific purpose and on an interest basis - borrowed funds;
- Leasing - one of the areas of financing property and financial relations associated with the right of ownership of goods and mechanisms for investment purposes;
- Funds contributed by other individuals and legal entities to own part of the property and profits of the enterprise;
- property rent.

It is obvious that for high-risk projects associated with the fluctuations of internal and external factors of production and market conditions, a high level of justification is required for the amount of borrowed funds. The same conclusion can be applied to leasing services, which have recently become a system of lending, which is based on collateral financing, lease relations and the agreement of debt obligations of the lessee and lessor.

As a key factor in the accelerated development of leasing, we can first of all invest in its production sector and guarantee that both lessors and lessees will benefit and benefit from the benefits of the producer (seller) of the property (leased object). This shows that the basis of economic relations in the system of leasing operations is the efficient use of debt capital.

In order to determine the conditions of efficiency taking into account these features, it is necessary to compare the efficiency of leasing operations with alternative methods of acquisition of property (purchase, application of various mechanisms).

It can be concluded that the financial and economic efficiency of leasing is the ratio of net income (net discounted income) between the investment leasing project and net income (net discounted income) between the investment project, which can be used to attract capital for the introduction of the object into production. the positive difference is understood. Determining this indicator is important in the following cases:

1. To finance an investment project financed on the basis of credit, which is an alternative to the investment project financed on the basis of leasing.

2. To determine the additional costs (AC) (usually the lessor's interest) associated with arranging the financing of the leasing project.

3. Determining the amount of legal deductions (LD) based on the specifics of leasing production facilities.

4. Comparison of AC and LD indicators for the project as of a certain date.

If the additional costs are less than the amount of discounts, i.e.:

AC < LD

the use of leasing is effective in the process of investing in production facilities. To assess this inequality, we compare the indicators on both sides and make the following:

LD - AC > 0.

The funds saved will often consist of:

1. Funds saved from the accelerated reduction of the tax base on property tax as a result of the application of an accelerated coefficient from 1 to 3 in the calculation of depreciation of leased fixed assets.

2. Achieving savings in the payment of income tax in exchange for legal tax evasion by adding large depreciation allowances to the full cost of production.

Additional costs reflect the interest (commission premium) of the leasing company. Therefore, we make the above inequalities as follows:

SPT + SIT > CAL

SPT + SIT - CAL > 0

SIT - savings on income tax;

CAL is a commission award of a leasing company.

The latter inequality reflects the possibility of providing an objective assessment of the effectiveness of leasing, and if the inequality is positive, the use of leasing is effective, and if it is negative, it is ineffective.

In addition, based on the last two inequalities, it can be argued that the commission premiums paid to leasing companies should be commensurate with the savings made, otherwise the leasing project would be considered inappropriate compared to other alternative projects.

The views expressed indicate the convenience of this method, which is used to assess the economic and financial efficiency of leasing. The maximum amount (percentage) of the commission fee paid by the lessee to the leasing company can be determined in the simplest way as a percentage of the starting price of the leased object and determine the standard period of use of this object specified in the leasing project. It should be noted that the upper limit of the interest rate paid to the leasing company is directly related to the base loan interest rate on the project.

Based on the above SPT + SIT > CAL inequality, we express this figure as follows:

SPT + SIT = CAL

From this equation, it is easier for the lessee to determine the amount of the premium, calculated on the basis of the repayment (percentage) of the loan agreement, relative to the maximum amount of the commission paid by the lessee.

It should be noted that leasing companies currently have a fixed percentage of the lease premium at their disposal, and the lessee cannot influence the change in this percentage if the lessor does not object.

Conclusion

Based on the above considerations, we can see that the issue of tax savings is important in the economic and financial assessment of the effectiveness of the use of the leasing project. This takes

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into account the savings on property and income taxes. In this case, in order to clearly demonstrate the effectiveness, it is necessary to select an alternative project financed on the basis of loans from commercial banks.

We consider it expedient to use the following formula in determining the cost-effectiveness of leasing in enterprises:

CEL = SPT + SIT-CAL

Here:

CEL- an indicator of cost-effectiveness of leasing;

SPT - savings on property tax, sum;

SIT - savings on income tax, sum;

CAL - costs associated with the commission of the leasing company, sum.

To determine the relative efficiency of leasing, we use the following formula:

$$REL = \frac{CEL}{VLO}$$

Here:

REL – is the relative efficiency of leasing use;

VLO - the value of the leased object, UZS.

In the practice of foreign countries, they rarely have the opportunity to reduce tax payments in accordance with the tax legalization. In the case of limited balance sheet profit of the enterprise, tax savings can be expressed by the following function: f (x) = SIT + SPT a max, in this formula, "x" is between 1 and 3.

In cases where accounting benefits are limited, the formula for tax savings is as follows:

f (x) = SIT + SPT a max

The optimal level of accelerated depreciation ratio in enterprises, taking into account the depreciation of the leasing project, should be determined by the following formula:

Olr = STF * LM / VLO

Here:

Olr - the optimal level of accelerated depreciation ratio of the leased asset;

LM is the standard term of use of the leased asset.

Under the leasing project, it is proposed to determine the efficiency of leasing in the event that the pre-tax profit of the leased asset is very small or zero, excluding depreciation, as the difference between the property tax savings and the leasing company's commission.

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