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Model for Evaluating the Effectiveness of Leasing

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Abstract: *The article examines the procedure of the current system for evaluating leasing and leased assets. It provides a specific mathematical framework for calculating indicators that characterize the efficiency of resource utilization for acquiring equipment through leasing. Concrete proposals are offered to address shortcomings in leasing calculations.*

Keywords: *leasing, leasing fee, leased equipment, services, expenses, income, profit, VAT, corporate tax.*

Relevance of the topic. The lack of funds, for example, sources of financing investments in enterprises, is currently one of the main problems in their investment activities. In conditions of insufficient own sources of financing and difficulties in obtaining loans, one real way to attract capital is leasing.

Many legislative acts on leasing provide a definition of leasing as a type of investment activity for acquiring property that can be used for entrepreneurial activities and transferring it based on a leasing agreement to individuals or legal entities for a certain payment, for a specified period, and under certain contractual conditions with the right of the lessee to purchase the property.

Traditional Aspects of Leasing Financing. Traditionally, enterprises utilize three sources of financing in their activities: equity capital, bank loans, and capital markets. However, in many countries with transitional economies, capital markets are underdeveloped, and banks prefer to work with large and relatively stable enterprises. Small or newly established businesses often lack access to bank credit. Frequently, the only source of external financing for such enterprises becomes financial leasing (leasing) or supplier credits.

During the leasing contract, the leased asset remains the property of the lessor. This is why in countries with a developed market for leasing services, leasing companies can operate without requiring additional guarantees or advance payments since the leased asset itself serves as a guarantee for the transaction. This is feasible if the mechanism for reclaiming ownership operates effectively in that market.

Unfortunately, this does not always happen efficiently in the domestic market. For leasing companies to reclaim property that is their ownership, it is necessary to go through arbitration court proceedings and then enforce the court's decision. This process is lengthy and not always effective. Consequently, leasing companies often require additional guarantees from lessees such as advance payments and other forms of transaction security.

Review of the current state of leasing utilization. Many economists believe that the need for the development of leasing activities is driven by economic reasons:

- a high level of physical and moral depreciation of fixed assets;
- a reduction in the investment opportunities of enterprises, caused by inflationary factors, a decrease in demand for produced goods, and the insolvency of the serviced population [2,3].

As of today, leasing is one of the main financial instruments that allows for large-scale capital investments in the development of the material and technical base (MTB) of enterprises. Its widespread use in the West and successful implementation in the domestic context are due to the fact that, compared to other methods of acquiring equipment (payment upon delivery, purchase with deferred payment, bank loans, etc.), leasing has a number of significant advantages, among which we can highlight the following:

- Leasing implies 100% financing and does not require immediate commencement of payments. In contrast, when using a regular loan, the enterprise must cover part of the purchase cost with its own funds.
- It is much simpler to formalize a leasing contract than to obtain a loan. The equipment itself serves as collateral for the transaction, which does not require additional guarantees.
- A leasing agreement is more flexible than a loan. A loan always entails fixed repayment terms and amounts. In leasing, the lessee can anticipate their income and work out a financing scheme with the lessor that is convenient for them. Repayment can be made from revenues generated by products produced using the leased equipment.
- Leasing agreements may include obligations for the lessor to carry out repairs and technological maintenance of the equipment. This is especially important when leasing complex machinery that requires highly qualified personnel.
- For the lessee, there is an opportunity to expand production capacities: limited liquid funds for acquiring equipment are evenly distributed over the entire term of the contract. This frees up resources for investment in other types of assets, contributing to the stability of financial plans for the lessee.

Along with the qualitative aspect of justifying the effectiveness of leasing, it is necessary to assess its economic advantages in quantitative terms. When considering specific methodologies, we believe that economic efficiency in leasing can be understood as the attainment of certain benefits (savings, profits) by the party involved in the leasing transaction compared to other methods of acquiring equipment, such as a bank loan.

For convenience in comparing leasing and loans, let's take a bank loan for two years with quarterly interest payments.

When purchasing any equipment, the lessee will pay:

$C_{purch}^{equip} = C_{res} + \sum \text{VAT}$,

$Here$: C_{purch}^{equip} –"equipment price at purchase cost."

C_{res} - "residual value of equipment."

VAT – "the amount of value-added tax paid upon the purchase and sale of equipment."

Each quarter, the enterprise will pay the bank the following amount:

$F_{credit} = \frac{C_{max} \times n}{100\%}$,

где: F_{credit} - "Quarterly fee for the use of credit resources."

n - "Quarterly interest rate of the bank for a long-term loan, %."

When comparing leasing and credit options, the following should be taken into account: leasing payments are included in the cost of production (work, services) produced by the lessee. At the same

time, according to the resolution of the Government of the Republic of Uzbekistan, changes and additions have been made to the Regulation on costs for production and sale of goods (works and services) [4], which are included in the cost of production (work, services), and on the procedure for forming financial results considered for profit taxation. The costs for paying interest on bank loans related to the acquisition of fixed assets and other non-current assets are not included in the cost of production (work, services), and therefore do not reduce the taxable base for calculating income tax. By choosing leasing, a company forfeits the opportunity to accrue depreciation that would occur if it acquired equipment through credit financing.

Thus, when calculating corporate income tax, the enterprise saves ($\sum S_E$):

$$\sum S_E = \frac{\sum D_{dep}^{cal} C_{com} R_{res} t \times \Delta \mathrm{R}_t I_c}{100{,}0\%},$$

here: $\sum D_{dep}^{cal} C_{com} R_{res} t$ - "Sum of depreciation charges for complete restoration calculated per quarter."

$\Delta \mathrm{R}_t I_c$ - "Corporate income tax rate."

In turn, the value of $\sum D_{dep}^{cal} C_{com} R_{res} t$ can be calculated as follows:

$$\sum D_{dep}^{cal} C_{com} R_{res} t = \frac{\sum R_{res} V_{val} E_{equip}}{R_{res} L_{life} S_{serv}},$$

here: $\sum R_{res} V_{val} E_{equip}$ - "residual value of equipment."

$R_{res} L_{life} S_{serv}$ - "residual service life."

The calculation of payments for additional services provided by the lessor for the quarterly period ($\sum P_{pay} A_{serv} LRt$) is carried out using the formula:

$$\sum P_{pay} A_{serv} LRt = \sum E_{exp}^{bus} + \sum E_{exp}^{serv} + \sum E_{exp}^{adv} LR + \sum O_{exp} E_{exp}^{serv} LR,$$

here: $\sum E_{exp}^{bus}$ - "Business travel expenses of the lessor's employees."

$\sum E_{exp}^{serv}$ - "expenses for services (legal consultations, information on equipment operation, etc.);"

$\sum E_{exp}^{adv} LR$ - "Advertising expenses of the lessor."

$\sum O_{exp} E_{exp}^{serv} LR$ – "Other types of expenses for the services of the lessor."

Taking these factors into account, the amount of quarterly lease payments that the lessee will pay will be:

$$\sum LP_L LR = \sum D_{dep}^{cal} C_{com} R_{res} t + \sum VAT + \sum Pa_{maint}^{equip} + \sum P_{pay}^{serv},$$

here: $\sum Pa_{maint}^{equip}$ - "Payment for equipment maintenance."

$\sum P_{pay}^{serv}$ - "payment for services."

Proposals and recommendations on the research topic. The presented methodology for assessing the economic efficiency of a leasing operation is one of the simplest, which favorably distinguishes it from numerous methodological recommendations for determining leasing payments.

The simplicity of this methodology leads to some inaccuracies: leasing payments are calculated based on the average annual value of the asset, and the periodicity or urgency of their payments does not affect the calculated amount of leasing payments. The payment amount is determined by dividing the total sum by the number of payments over the lease term. Annually, the cost for using borrowed funds is related to the average annual amount of unpaid debt for that year or to the average annual residual value

of the asset. However, this approach does not take into account the constantly changing debt amount throughout the year, depending on the frequency of payments.

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