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LEASING FOCUS

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THE REGULATORY ENVIRONMENT FOR EQUIPMENT LEASING: ROLE AND IMPACT ANALYSIS

LEASING FOCUS

CONTENTS

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Correspondences:
No 25B, Fola Jinadu Crescent,
Gbagada Phase 1, Lagos.

Tel: 08023176691, 08023179048

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Editor:
Olayemi Eniolawun

Email:
elan_nigeria@yahoo.com, info@elannigeria.org
www.elannigeria.org

From the Editor's desk

The regulatory framework is the pillar of the leasing industry, that dictates the scope and depth of leasing activities and basically made up of three major aspects of leasing - legal, accounting and taxation. These key aspects, have a tremendous impact on the leasing industry in terms of protecting the rights of the parties, understanding the nature of leasing, level of investment, supervision, governance and compliance issues.

For instance, the legal environment influences the extent of participation in the growth of the leasing industry. The Equipment Leasing Act 2015, is significant in this regard. The Act was enacted as part of Government's support initiative to stimulate the development and growth of the leasing industry, bringing sanity into the practice of leasing, certainty in terms of understanding the legal nature of leasing and promoting investment as well as increasing visibility and patronage. A key aspect of the Act is the establishment of the Equipment Leasing Registration Authority (ELRA), for the full implementation of the Act, giving effect to the purport and intent of the Act.

Equally, there are new standards that have been introduced including, the International Financial Reporting Standard (IFRS 16), on Leases, that have a significant impact on the financial reporting and market dynamics of leasing. Similarly, the tax regime affects lease patronage and eventually the bottom line of leasing companies. Specifically, the issue of value-added tax (VAT), withholding tax (WHT), and capital allowance are major contributors, in this regard.

The significance of the regulatory environment makes it imperative for practitioners to have a thorough understanding of the various aspects, in other to improve on their compliance, service delivery, protection mechanism and overall profitability. There is no gainsaying that a well-regulated and vibrant leasing industry would effectively contribute to national development. Our cover for this edition, ***"The Regulatory Environment for Leasing:*** Role and Impact analysis", - takes the discussion further.

Equally, on the menu, are insightful articles, including succinct information on trends and development in the leasing industry, to enrich your knowledge.

We sincerely hope that this publication will serve as an important source of documentation and research, providing a unique guide for corporate decision-making and projections.

Thank you!

YEMI ENIOLAWUN

GLOBAL LEASING – NIGERIA IMPROVES IN RANKING

According to the 2023 World Leasing Yearbook, (an Euromoney Publication), Nigeria now ranks 41st position in the top 50 leasing countries up from 50th position in 2022.

The global leasing industry reported an impressive rise of 9.3% in new business volumes in 2021 as global economies emerged from lockdown and equipment investment rebounded. The top 50 countries reported new business volume of US$1,463.19bn in 2021 which is up from US$1,338.19bn in 2020. The Report shows that the global leasing industry has grown 84% in the past decade.

Three regions, North America, Europe and Asia, account for 96% of world leasing volume. North America experienced an increase in new business of 7.4%, Europe was up 7.8%. Business in Asia was up 11.4% making it the second largest region after North America. Elsewhere, South America was up by a very impressive 74%. Australia/New Zealand was up 1.1%, and Africa was up 9.3%. Nigeria is among the three African countries that made the top 50 countries alongside South Africa and Morocco.

Europe. Europe reported an increase in new business of 7.8% in 2021 bringing total new business to US$446.5bn and it is the third largest region in the world. Europe accounts for 30.5% of total world volume. Most of the national leasing markets enjoyed positive results with over three quarters of European countries recording double digit growth in 2021 compared to the previous year. The leading five European countries (UK, Germany, France, Italy, and Sweden) feature in the world's top 10 countries for new business, contributing 68% of the total European volume. The United Kingdom and Germany are positioned as the third and fourth largest leasing markets in the world and remain the dominant players in Europe. They accounted for 40.8% of the European market and 12.5% of the world market in 2021.

North America. The North American region consists of the US, Canada and Mexico. The sector maintains its position as the world's biggest leasing market, with new business volume of US$510.4bn, representing 34.9% of the total global market share in equipment leased. The US is the dominant player of the region, and the largest single leasing global market. New US business volume for the

Asia. The performance of the Asian leasing market was strong in 2021 and new business volume in Asia increased by 11.4% to US$448bn. Asia occupies a 30.6% share of the world market. China remains the 2nd largest leasing market in the world by a considerable margin. New business stood at US$341.5bn in 2021 with growth of 10% over 2020 which reflects the overall strength of the Chinese economy in 2021. Japan, which is the 5th largest leasing market in the world, experienced an increase in lease transaction volume in 2021 of 8.7% with new business volume of US$64.8bn. It remains the second largest market in Asia after China.

Africa accounts for only 0.3% of the world market in leasing and accounted for US$4.9bn new business in 2021.

For the Nigerian leasing industry, outstanding lease volume as at Q1 2022 stood at N2.629trillion as against N2.587trillion in Q4 2021, recording a 1.6% growth quarter on quarter, and over N14.3trillion in the past decade. This unique financing option will continue to contribute to national economic growth, essentially, with the plans of government to stimulate further development in the economy will no doubt, make leasing more relevant as an alternative option especially to the MSMEs.

Table 1: Volume and growth by region (2020-21)

Rank by volume	Region	Annual volume (US$bn)	Growth 2020-21 (%)	Percentage of world market volume 2020	Percentage of world market volume 2021	change in market share 2020-21
1	N. America	510.4	7.4	35.5	34.9	-0.6
2	Europe	446.5	7.8	31.0	30.5	-0.5
3	Asia	448.0	11.4	30.0	30.6	-0.6
4	Aus/NZ	26.7	1.1	2.0	1.8	-0.1
5	S. America	26.7	74.0	1.1	1.8	0.7
6	Africa	4.9	9.3	0.3	0.3	0.0
	Total	**1463.19**				

Source: Solifi Global Leasing Report

Table 2: Global Leasing Report 2022

Ranking	Continent Code	Country	Annual volume (US$bn)	% Growth 2020-21	% Market penetration	Source
1	NA	United State	472.97	7.40	22.0	(8)
2	A	China	341.46	10.71	9.9	(9)
3	E	United Kingdom	91.97	14.32	35.2	(2)
4	E	Germany	90.44	21.85	18.6	(2)
5	A	Japan	64.82	8.71	4.6	(1)
6	E	France	59.63	12.50	16.7	(2)

7	E	Italy	34.45	25.61	13.7	(2)
8	NA	Canada	30.63	6.93	43.0	(1)
9	ANT	Australia	26.71	7.65	n/a	(1)
10	E	Sweden	25.51	30.16	26.6	(2)
11	A	Taiwan	23.02	23.40	11.0	(1)
12	E	Poland	21.94	25.62	25.6	(2)
13	E	Russia	17.00	n/a	n/a	(8)
14	A	Korea	14.50	12.14	9.0	(1)
15	E	Switzerland	13.82	-2.58	11.4	(2)
16	E	Denmark	11.62	4.97	24.0	(2)
17	E	Spain	11.51	29.98	7.2	(2)
18	E	Austria	9.57	2.07	13.6	(2)
19	SA	Colombia	8.81	36.00	n/a	(4)
20	E	Norway	8.46	12.98	11.5	(2)
21	E	Belgium	8.37	13.04	10.2	(2)
22	E	Netherlands	8.26	4.00	7.2	(2)
23	NA	Mexico	6.79	2.30	n/a	(4)
24	SA	Brazil	5.92	72.20	n/a	(4)
25	E	Czech Republic	5.15	15.37	10.5	(2)
26	SA	Chile	4.94	37.50	n/a	(4)
27	SA	Puerto Rico	4.69	636.00	n/a	(4)
28	E	Turkey	4.29	48.15	n/a	(2)
29	E	Finland	4.00	-7.50	n/a	(9)
30	E	Portugal	3.64	5.53	11.6	(2)
31	E	Slovakia	3.05	13.92	19.4	(2)
32	E	Hungary	2.87	13.21	6.3	(2)
33	A	India	2.65	44.80	2.6	(9)
34	E	Lithuania	2.48	53.86	24.4	(2)
35	E	Slovenia	2.07	32.89	17.9	(2)
36	AF	South Africa	1.95	0.01	n/a	(8)
37	SA	Peru	1.77	40.30	n/a	(4)
38	E	Bulgaria	1.61	22.98	14.2	(2)
39	AF	Morocco	1.58	28.89	n/a	(2)
40	E	Estonia	1.42	39.91	24.4	(2)
41	AF	Nigeria	1.40	585.70	n/a	(1)
42	E	Croatia	1.23	23.25	n/a	(2)
43	A	Malaysia	1.18	24.81	n/a	(1)
44	E	Latvia	0.82	31.19	11.2	(2)
45	E	Greece	0.73	20.02	3.8	(2)
46	E	Serbia	0.63	34.80	n/a	(1)
47	SA	Argentina	0.39	263.40	n/a	(4)
48	A	Uzbekistan	0.23	40.00	1.1	(1)
49	SA	Costa Rica	0.14	137.90	n/a	(4)
50	A	Hong Kong	0.10	-39.00	n/a	(1)
	Total		**1463.19**			

Market penetration rates quoted by Leaseurope appear as those reported and defined in the Leaseurope's 2021 Annual Survey. Country growth figures display the figure reported by each country i.e. it is unaffected by the vagaries of currency fluctuations. It is intended to display true growth as experienced on the ground.

Key to Sources:

(1) National Leasing Association
(2) Leaseurope
(3) Asian Leasing Association
(4) Alta Group
(5) Other Trade Associations
(6) Government Statistics
(7) Central Bank Data
(8) Author's Estimate
(9) Other's Data

Source: 2023 World Leasing Yearbook


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THE LEASING LANDSCAPE IN 2023

CONTINUED RECOVERY AMIDST HIGHTENED TURBULENCE

The Nigerian leasing industry remains resilient, adapting and adjusting in the face of economic turbulence and making significant contribution to capital formation in the economy. The lingering impact of Covid -19 notwithstanding, the leasing industry continues to stay afloat, maintaining its growth trajectory. From a marginal growth of 4.5% recorded at the height of the pandemic in 2020, the industry returned to double digit growth of 28.65% in 2021 and sustained this momentum into 2022 with N2.629trillion as at Q1 '22 and will remain at double digit growth as figures are being concluded for the year. The industry presently ranks 41st among the top 50 leasing markets globally according to the world Leasing Year Book (2023) ranking.

Available statistics show that outstanding lease volume as at Q1 2022 stood at N2.629trillion as against N2.587trillion in Q4 2021. The oil and gas sector grew by 22% with N748bn of the outstanding leases; followed by Transportation & Logistics sector which grew by 21% recording N622bn; Manufacturing 12% - N380bn; Telecoms taking 11% of the total volume arriving at N237bn. Others (including Healthcare and Education accounted for N300bn (14%), with Agriculture and Government recording considerable growth.

The growth can be well attributed to the business momentum that slightly picked up after the pandemic despite the continued adverse impact of the pandemic on socio-economic fundamentals. Obviously, the growth was driven mainly by the resumption of economic activities, stable environment and demand, as businesses tried to do a catch up.

Overall, the Nigerian Leasing Industry has consecutively and consistently recorded growth in business transactions in the past decade generating lease volume of over N14.3 trillion.

Figure 3: Distribution of Lease Volume by Sector (Q1 2022)

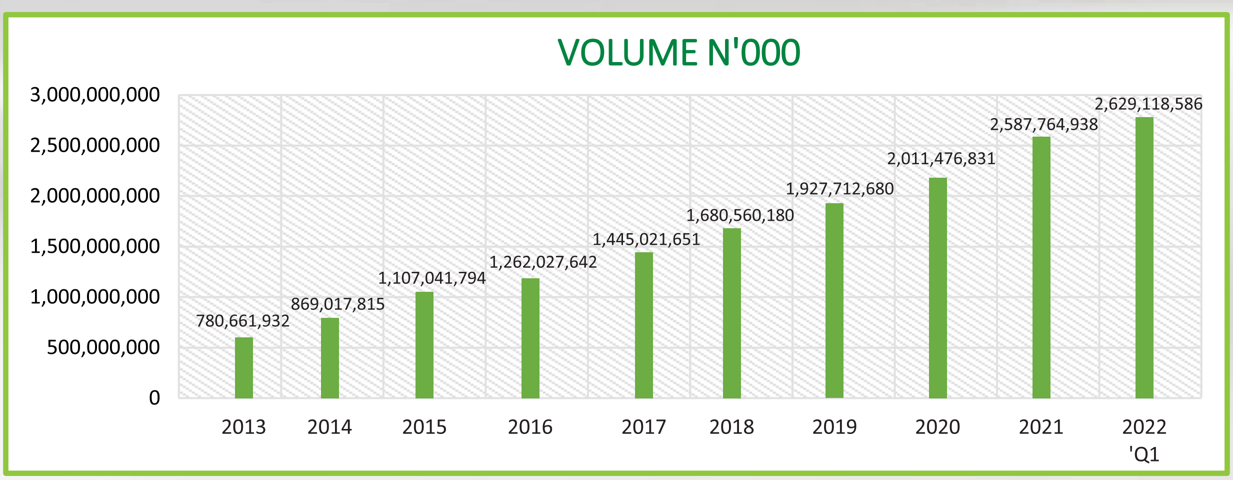


Figure 4: Distribution of Lease Volume by Sector (Q1' 2022)

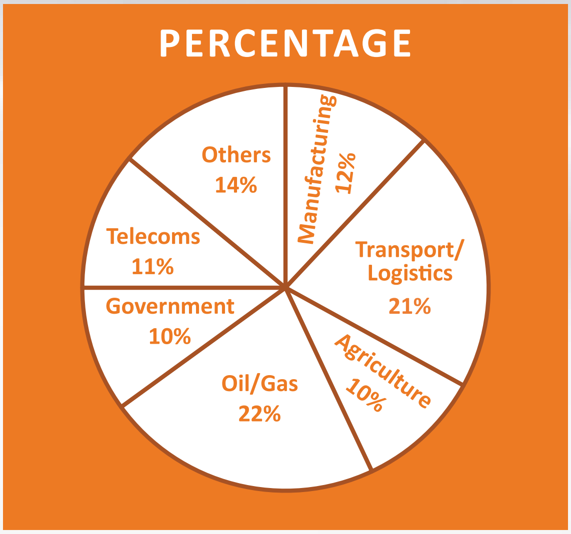
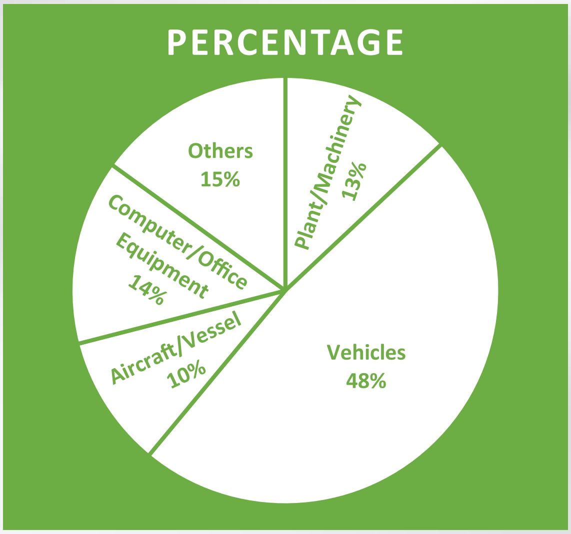


Figure 5: Analysis by types of Asset (Q1' 2022)



Source: ELAN Research

Essentially, the leasing terrain in 2022, was largely impacted by the spill over of the manifestation of conditions in the past two years and prevailing industry - specific factors.

Increased cost of assets and operations resulting from adverse macro-economic conditions. The depreciation of the Naira in the Foreign Exchange market and the scarcity of the US dollar caused prices of goods and services to rise. This situation has been aggravated by the Russian and Ukraine war that has caused significant disruption in the global economy. This affected the capacity of leasing companies, to finance new transactions where the opportunities were available to do so and equally maintained service - oriented leases. The increasing cost continued to limit the acquisition of assets through outright purchase by consumers and this equally presented more opportunities for leasing as alternative means of acquisition.

The absence of appropriate funding mechanism, continued to constrain the depth of lease penetration in the market. The predominance of short-term funds which are even dwindling and expensive, cannot support more meaningful development of the industry thus, confining most leases to within 12-48 months to avoid mismatch. The limited sources and high cost of funds, have constrained the capacity of most lessors to finance more leases and engage in big ticket transaction, thereby limiting their scope to small and medium markets.

Improvement in new business origination, though constrained by operating environment. The resumption of full economic activities and subsequent demand for asset financing, manifested itself in increased portfolio of leasing companies, though economic conditions hindered the capacity to fully expand lease offering.

Finance Lease maintained its lead position with 60% of the total transaction with operating lease increasing its market share in recent times, due to market dictates arising from preference of corporate bodies to focus more on their core activities, while outsourcing other operational functions such as transportation and other logistics services. Operating lease is equally increasingly becoming a risk mitigant and niche market for several lessors in the industry.

This has witnessed some major lessors, shifting completely to operating lease to balance their risk appetite and meet the outsourcing needs of clients. In a bid to create further niche, some of these lessors have set - up workshop of their own, providing services to outside customers as well.

Vehicle leasing remained dominant as the largest leased asset segment constituting about 55% of the leased assets. Vehicle leasing, including staff shuttle, commercial buses, trucks for haulage, and operational vehicles, have been a major attraction in the recent times.

Increasing penetration of vendor leasing, especially from vehicle vendors. Several multinational vehicles manufactures and major distributors, continue to expand their product offering through leasing, setting up vendor leasing schemes or leasing companies. The financing of leases of their products are done either directly or most often with banks under various asset acquisition schemes while some have set up leasing companies that provide operating leases of their product range to selected corporate clients.

Maintenance of business and operational approach adopted in response to "the new normal". Many lessors still maintained some aspects of the measures adopted during the covid 19 pandemic such as working from home and dealing with external relations such as customers, through online and other non-physical modes of engagement. This has improved cost profile associated with physical engagement such as office administration - electricity, fueling and transport etc., and better time management. Lessors have continued to leverage on technology to improve their processes in response to prevailing conditions.

No significant development in the regulatory environment. The lack of full implementation of the Equipment leasing Act 2015, continued to be a challenge to the industry. Specifically, the inauguration of the Equipment Leasing Registration Authority which is key to giving effect to the purport and intent of the Act, is yet to be done, despite persistent engagement since 2015, with the Ministry of Finance, Budget, and National Planning. The Act was enacted as part of the Government's support initiatives to stimulate the development and growth of the leasing industry, bringing sanity into the practice of leasing, certainty in terms of understanding the legal nature of leasing and promoting investment as well as increasing visibility and patronage.

Also, the impact of the International Financial Reporting Standard (IFRS 16), on Leases is yet to fully manifest since it came into operation on the 1st of January 2019. The Standard is aimed basically at eliminating off-balance sheet financing, which has been a major attraction of operating lease to companies seeking off-balance sheet financing. The IFRS 16, requires all leases to be on balance sheet except those exempted and by implication lessees will no longer classify leases as finance and operating lease. The introduction of the Standard was expected to adversely impact the market dynamics, especially demand for operating lease. However, this has appeared not to be the case as customers are looking at other benefits of operating leasing beyond off balance sheet financing, while some leases are structured to achieve a partial off-balance sheet benefit, and as service contracts to overcome the hurdle.

THE LEASING LANDSCAPE IN 2023
CONTINUED RECOVERY AMIDST HIGHTENED TURBULENCE

In 2023, the leasing industry is expected to remain resilient in its recovery and sustain its growth trajectory, in the face of economic challenges. However, the extent of disruption in the macro environment, especially the outcome of the general elections, will invariably shape the performance of the leasing industry. Essentially, many of the industry-specific conditions in 2022, are expected to remain largely unchanged.

The Nigeria Leasing Landscape 2023

- ***Expected growth in new business volume***
- ***Continued adoption of strategic objective and approach***
- ***Continued absence of appropriate funding mechanism***
- ***Full implementation of the Equipment Leasing Act 2015.***
- ***Expansion of new entrants into the market***
- ***The rising cost will continue to impact volume and service delivery***
- ***Increasing business opportunities***

Expected growth in new business volume due to growing appetite for asset finance by consumers in the face of tight cash squeeze and rising cost of assets.

Continued adoption of strategic objective and approach by lessors to withstand shocks brought about by the pandemic and prevailing economic conditions, ensuring business survival and continuity. Lessors will still be on their guard, adopting effective cost control mechanism, improving processes and customer relations etc, to navigate through the challenges to stay afloat and improve the bottom-line.

Continued absence of appropriate funding mechanism, will remain an albatross for the leasing industry. Money is the raw material for leasing, its adequacy, availability and cost, is key to the success of the industry. This issue is becoming more challenging, with the prevailing economic conditions that have further tightened liquidity in the system. ELAN, continues to engage financiers locally and internationally for an appropriate funding mechanism for the industry

Full implementation of the Equipment Leasing Act 2015, especially the Inauguration of the Equipment Leasing Registration Authority (ELRA), will be a game changer. The inauguration and commencement of operation of ELRA, is expected to take place this year with the sustained pursuit by ELAN, supported by other stakeholders. The ELRA, will provide the integral booster for the faster development of the leasing industry as it gives effects to the full implementation of the Equipment Leasing Act 2015. The ELRA is saddled among other things, with the responsibility of determining eligibility of persons to practice leasing, register leases to mainly protect the proprietary rights of the lessor, and investigate the incidence of default. Indeed, these functions will bring sanity into the practice of leasing and certainty in understanding the legal nature of leasing as well as stimulating investment in the industry and increasing visibility and patronage.

Expansion of new entrants in the market as the leasing industry continues to attract new investors, who want to benefit from the market opportunities. The number will increase considerably with the expected operation of ELRA. Already, foreign participants are waiting in the wings to cash in on opportunities of the Nigerian leasing market.

The rising cost will continue to impact volume and service delivery. The rising cost of assets and dwindling funding, means reduced number of assets being financed. Also, it will continue to slow demand for new assets, while stimulating demand for used assets especially vehicles. Many lessors involved in provision of trucks for logistics, are opting for used trucks as the cost of new ones are too expensive to be deployed and, in most cases, the customer is not willing to match it with corresponding rental increase. Equally, the cost of maintaining service delivery especially in operating lease, is taking a huge toll on lessors. Cost profile, including energy, repairs and maintenance and other ancillary services have been very challenging.

Increasing business opportunities. No doubt, the wide financing gap in various sectors of the economy presents immense opportunities for leasing but the issue remains that of capacity of lessors to tap these opportunities. Essentially, the opportunities cut across several facets of the economy including:

- **Oil and Gas -** the backbone of the Nigerian economy, which has continued to account for the bulk of leasing volume as the sector has a deep penchant for leasing. The sector is expected to witness more robust activities with the enactment of the Petroleum Industry Act (PIA), intended to bring far reaching reforms and make the sector more attractive to investors. The "Decade of Gas" initiative is equally being implemented, aimed at bringing to focus the utilisation of the nation's huge gas resources. The further boost of activities in the sector, will equally expand leasing demand in the sector, where leasing culture is already entrenched. Lessors should continue to expand their activities by identifying new market niche across the value chain of the sector.

- **Healthcare:** The recent covid 19 pandemic has re-echoed the importance of efficient health care delivery. Modern health care delivery is driven by technology through provision of hi-tech equipment and infrastructure. The Nigerian healthcare market is large and diverse with a potential of over $5bn USD. There are immense opportunities especially in replacing outdated healthcare technology and addressing the deficiency in infrastructure. Health leasing product can be developed to meet the diverse needs of the participants in the sector ranging from manufacturers, health service providers, insurance, to health education institutions etc.

- **Construction:** This is one area, where Nigerian lessors are yet to be fully involved, despite the opportunities that abound. The industry is expected to post an average growth rate of 3.2% in real terms between 2022 - 2025. The demand for construction equipment and technology is huge, as there are not readily available to users because of the huge cost of acquisition. ELAN secretariat in recent times, has been getting almost on a daily basis, request for various types of construction equipment from contractors for the execution of projects in different parts of the country.

- **Agriculture.** There are wide financing gaps across the value chain: Production, Processing, Packaging, Storage and Distribution. The Government, Development Partners and Financiers, are encouraging the sector through various support mechanisms. Lessors can key into these initiatives, partnering with these stakeholders to provide equipment to the sector.

- **Mining:** The potential of the sector is huge. Mining activities require the use of specialised and general equipment, which the mining firm, especially artisan miners may not have the capacity to acquire on their own. Lessors can avail themselves of the huge opportunity to meet the diverse equipment needs such as sand mining equipment, which have great demand.

- **Information and Communication Technology (ICT) -** this emerging sector is one of the most impactful in our daily and national lives, growing from less than 1% in 2001 to 20.32% of GDP in Q3 2022. Nigeria's quest for digital economy has positively impacted the contribution of the ICT sector to National GDP and will continue to boost activities in the sector. The provision of telecom infrastructure and ancillary equipment provides a viable market for leasing.

- **Consumer leasing -** the most rapid transformations in the economy are taking place in the Consumer/retail market, everybody is generally involved - the consumer wants to participate, so also are SMEs, Banks, FINTECHs, HMOs, insurance, MFBs. For the leasing industry, this has been a ready market where lessors can deepen their participation, providing, for instance, household items to qualifying individuals to improve their comfort and quality of life.

- **MSMEs Leasing -** Micro, Small and Medium Scale Enterprises (MSMEs), are the backbone of the economy but are constrained by several challenges one of which is access to finance. Leasing has been established globally as the last resort, providing creative financing alternative for MSMEs. The over 40 million MSMEs in Nigeria, cutting across various sectors, provide an ample market for lessors.

- **Public Sector Leasing -** government being the biggest spender presents opportunity, despite the bottle neck of doing business with government. Though activities are expected to slow being transition year of Government, at least for better part of the year, lessors should watch out for key policy thrust and developmental focus of government at all levels, to further expand their leasing activities. This year's budgets and the focus of the Medium, Term National Development Plan (MTNDP 2022-2025), are key areas of interest to watch. The various intervention initiatives and investment in priority areas - infrastructure, power, food, security, works and housing, job creation, Information and Telecommunications (ICT) and the diversification efforts of the economy, with the persistent increase in the non-oil sector contribution to GDP, sum up the scope of demand for capital asset. The options for participation are wide and it is up to the lessor to identify which is best suited, based on its risk appetite and capacity.

Obviously, opportunities abound for leasing. However, these can only come into full fruition with the proactiveness of lessors and goodwill from other stakeholders for a more sustainable leasing industry. Specifically , the Government for instance can activate its support mechanism through: the full implementation of Equipment Leasing Act 2015 to strengthen the capacity of the industry; facilitation of long-term financing including: access to intervention funds and establishment of a National Lease Fund; deepening the utilisation of leasing in public sector to achieve efficiency and cost savings; incentivising lease investments in critical sectors such as agriculture, health and mining, through access to funds and tax rebates etc.

For the leasing industry, it is important to remain on its guard and be proactive. This will require continued realignment of strategies and adoption of innovative approach to drive success which will involve:

- **Broad and deeper funding structure,** that would strengthen the capacity of lessors to expand their leasing activities and take advantage of emerging opportunities. The ability to attract adequate and cheaper funds will determine the extent of participation in the leasing industry. ELAN has been advocating for lessors to gain access to potentially idle funds such as the National Pension Fund (NPF) and establishment of National Leasing Fund, in addition to engaging private financiers (local and international), to support the industry with necessary funds. While this is being done, non-bank/financial institution lessors especially, should adopt proactive approach in addressing the funding challenges, which include trade finance from their vendors and funding from their insurers. Also, lessors can collaborate for syndicate funding of lease equipment for large projects, such as the provision of transportation and logistics for the Oil and Gas sector, Mining etc. Collaboration also has the effect of mitigating risks.

- **Prioritising risk management and processes.** This will involve monitoring in-house vulnerabilities - assessing financial, operational risk and transaction risks. For example, Lessors can bring risk management to fore as part of the strategic planning process. Constantly simulating how interrupting events as well as other variables could disrupt their businesses and use those insights to design their operations and resource distribution.

- **Enhancing internal capacity to improve processes and performance,** through constant staff development, participating in capacity building programmes and ensuring adequate working infrastructure including right technology. Leveraging for instance on technology, can greatly improve processes in various areas of operation, including customers on-boarding, risk assessment and lease structuring as well as asset management functions and financials. Essentially, to reinvent processes, technology must be seen as a core factor in the business model.

- **Sound Corporate Governance** has always been a major hall mark of any organisation that desires success. Embracing sound corporate governance, will enhance the profile, visibility and patronage of the organisation and endear it to potential investors.

- **Maintaining and improving portfolio quality while keeping the balance:** This requires understanding of the market dynamics, market intelligence, development of product and niche market, competitive pricing and adapting to market shifts, to grow portfolio within acceptable risk appetite.

- **Constructive engagement with market and relevant stakeholders** is necessary to secure support from customers, employees, suppliers, creditors, investors and regulatory authorities. It is particularly imperative, that lessors constantly engage with their customers, understand their challenges and be part of the solution process. This will endear the customers to them and sustain the business relationship.

- **Controlled back-office costs.** Financial discipline and adopting cost saving mechanism to achieve a low back-office cost, will enhance profitability. This has been the main strategy in the industry over the past two years, cutting down on discretionary costs.

Overall, in 2023, the leasing industry will still maintain its growth trajectory, though in a more difficult terrain compared to previous years as the economy continues to head south. ELAN, as the umbrella body for the leasing industry, will continue to guide and create the platform that would facilitate the attainment of corporate objectives and the diverse interest of stakeholders.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REGULATORY ENVIRONMENT FOR LEASING IN NIGERIA: ROLE AND IMPACT ANALYSIS

Background

Equipment leasing globally, is established as a creative financing alternative that facilitates access to capital equipment, and is being used to meet the world's equipment needs.. In the United States of America for instance, leasing remains the single most widely-used method of external finance, representing 30% of investment in capital equipment. Many developing countries such as Brazil, Indonesia, Pakistan, Zambia, South Africa and Ghana, are equally using leasing to stimulate investment and create jobs. In these countries, leasing is at the forefront of investment in the extractive industries, transportation, agriculture, telecommunications, roads and other infrastructure.

The whole essence of leasing is to enhance the planning, improvement and development of any economy by building and supporting productive ventures. The fact that leasing facilitates long and convenient access to capital equipment goes to show the unique role of leasing in building and supporting productive ventures.

Since inception in Nigeria, leasing has been supporting economic development. Today, the impact of leasing is pronounced in all sectors of the economy, enhancing capital formation, generating employment and creating wealth. The contribution of leasing in the past 10years is in excess of N14.3trillion and is becoming more relevant in our prevailing economic situation, especially to Small and Medium Scale Enterprises (SMEs), which, according to PwC's recent “Nigeria SME Survey”, contribute 48% of national GDP, account for 96% of businesses and 84% of employment. Of course, one major issue for SMEs is the difficulty in accessing funds for the purchase of equipment and other similar assets.

It is a well-known fact that the business growth of SMEs has been stunted because it is difficult for entrepreneurs and promoters to obtain loans from Banks. The Banks have been blamed for withholding excess amounts of liquidity with very little attention given to funding the activities of SMEs, hence stalling the latter's growth. This makes leasing a viable alternative option for SMEs as it would give them access to equipment and other vital resources needed to start or run their business activities.

Globally, three key fundamentals tend to shape developments in the leasing industry - Legal, Accounting and Taxation

1. LEGAL

With the coming into force of the Equipment Leasing Act 2015 (ELA), Nigeria joins the countries with specific legislation on leasing. Essentially, leasing practice in Nigeria is now being governed by the Act and general principles of Common Law supported by provisions of other relevant laws such as the Companies and Allied Matters Act, Companies Income Act. It is expected that the new legal regime would build confidence among investors and increase participation in leasing, given the evolving nature of the industry in Nigeria.

Generally, the ELA was enacted as part of the Government's support mechanism for the leasing industry and intended to regulate the business of leasing and related matters, ensuring clarity and certainty in the legal framework for leasing, ushering sanity in the practice of leasing and promoting investment in the industry.

The following were the reasons for the Leasing Act:

- **The legal framework for leasing was inadequate:**

  - ✓ Lack of clear definition of leasing - failed to define leasing clearly from other forms of similar commercial transactions such as hire purchase and instalment sale.

  - ✓ Inadequate protection of lessors - Lessors are not adequately protected in lease transactions thus exposing them to more risks. A major area in this regard, is that of repossession in the event of default. The judicial process on repossession of leased asset is very complex and slow unlike some jurisdictions where the process is simplified and can be concluded within few hours.

  - ✓ The need to have a specific legislation on leasing for ease of reference - the practice of leasing was largely governed by the Common Law (an acquired Law from Britain) supported by some provisions scattered in other Legislations.

- **The need to enhance investor confidence and promote investment**

While Nigeria has been recognised as having great potential for leasing in Africa, foreign investors have been wary of doing business in the country due to the uncertainty in the then existing operating environment. Smaller African countries have attracted foreign investors in their leasing industry by putting an appropriate, business-friendly legal framework in place. For instance, the enactment of the Egyptian Leasing Law in 1995, paved the way for the rapid development of the industry, and within two years, 150 new leasing companies were established. The influx of foreign investors seeking partnerships with the firms, shows the value of an enabling legal framework and business environment. Also in Cameroon, the IFC reports that since the enactment and operation of the country's leasing law in 2010, the local leasing industry grew from $75 million to $205 million between 2010 and 2016.

Synopsis of the Equipment Leasing Act 2015

The Equipment Leasing Act has 45 sessions and is essentially aimed at promoting the business of leasing in Nigeria by among other things, creating clarity, certainty and sanity in the practice of leasing and ensuring protective mechanism, for both the lessor and lessee. The Explanatory memorandum of the Act states that

"This Act seeks to regulate the business of equipment leasing in Nigerian so that the relationship between the lessor and the lessee and other third parties is identified and protected". The Act also seeks to establish a regulatory authority to provide for the registration of all equipment lease and the certification of equipment lessors".

Scope

Applies to all leases

- The court may issue a warrant to enter and repossess the leased asset upon satisfying itself on compliance with the Act

Definition of Leasing

The Act defines a lease agreement as "a written agreement between the lessor and the lessee for the lessee's use in consideration of the payment of an agreed rental over a specified period" for an equipment and "the lessor shall retain full title and legal ownership during the specified period of the lease. ELA recognises and differentiates Finance lease and operating leases.

Classification of Leases

Lease is divided into 3 main classes (Section 3 ELA),

- Finance :
- operating
- and other variants

✓ Syndicated lease
✓ Sale and lease back
✓ Cross border lease
✓ Leveraged lease and other as approved by the Minister of Finance

Requirements for Lease Agreement

Lease agreement must be in writing and containing for:

1. Finance lease

✓ Statement to the effect that the lease is Finance lease
✓ Description of the asset to be leased
✓ Total rental or instalmental lease rental payable by the lessee
✓ The date which rental is payable
✓ The estimated price of the equipment
✓ Statement as to the knowledge of the supplier of the asset that it is for a lease transaction.
✓ A clause affirming the title of the lessors
✓ On termination by expiry of time, unless a renewal is granted or the lessor agrees to sell, the lessee shall return the asset.
✓ Acknowledgment from the lessee that the lease is a full pay out, non-cancellable agreement.
✓ A statement as to whether or not the lessee selected the equipment or supplier/manufacturer with or without relying on the skill and judgment of the lessor.

2. Operating Lease

✓ Statement to the effect that the lease is Operating lease
✓ Description of the asset to be leased

- ✓ Total rental or instalmental lease rental payable by the lessee
- ✓ The date which rental is payable
- ✓ A clause affirming the title of the lessors
- ✓ On termination by expiry of time, unless a renewal is granted or the lessor agrees to sell, the lessee shall return the asset.

Rights and Obligations of Lessors and Lessees

- **Rights of the Lessor**
  - ✓ Right of ownership
  - ✓ Right to demand payments in event of default
  - ✓ Protection against liability arising from defects in or fitness of the leased asset
  - ✓ Protection against damage
  - ✓ Protection against third party claims (death, personal injuries, damage and taxes)
  - ✓ Inspection of asset and lessee's accounts and documentation

- **Obligations of the Lessor**
  - ✓ Grant quiet and peaceful possession of the leased asset
  - ✓ Provide reasonable assistance to the lessees to enforce his rights against the supplier
  - ✓ Perfect delivery of equipment expeditiously and in accordance with agreed terms.
  - ✓ Deliver the copy of lease agreement to the lessee within 14 days

- **Rights of the Lessee**
  - ✓ Enjoyment of quiet possession of the leased asset (s 22(1) ELA)
  - ✓ Protection against unilateral termination of lease
  - ✓ Direct action against the supplier for effective performance (22(2)
  - ✓ Rights to damages for actual loss incurred resulting from termination of lease due to the act of the lessor (s 29)
  - ✓ Suspension of obligations upon failure of the lessor to enter a supply agreement
  - ✓ Demand termination upon breach of contractual obligations

- **Obligations of the Lessee**
  - ✓ Prompt payment of rental
  - ✓ Use the asset in accordance with the terms and conditions of the agreement
  - ✓ Maintenance in finance lease (s 22)
  - ✓ Proper care of the asset
  - ✓ Shall not sub–lease, assign or pledge act in any way inconsistent of the legal ownership of the lessor
  - ✓ To provide information on the leased asset (s 27). (It is an offence if the lessee fails to comply within 14 days without reasonable cause).
  - ✓ Return the asset at the expiration of the lease agreement or exercise option as agreed

Default

- Distinction between rental default and other breaches
- The failure of any of the parties to discharge any of the responsibilities as agreed. Some of these events on the part of the lessee are:

- ✓ Non-payment of rentals as and when due
- ✓ Unauthorised transfer of the leased property
- ✓ Failure to use the property in manner and purpose agreed upon
- ✓ Failure to provide information as to the location and state of the asset
- ✓ Failure to take proper care of the asset

Protective Mechanism under Equipment Leasing Act

- Termination after giving appropriate notice as specified in the Act (s,37) if default in payments of rental
- An exparte application to Federal High Court for repossession for non-payment of rental(s.39)
- The lessee shall be responsible for the immediate payment of all rentals due at the time of repossession
- Repossession shall not prejudice the right of the lessor to other remedies
- For breach other than non-payment, the lessor can commence legal proceedings in court
- The lessor shall not remove the leased asset from Nigeria without the written consent of the lessor
- The lessee shall be liable for repairs to damage caused by his act, agent or servant or any third party to a leased equipment (s,24)
- Lessor is generally not liable for any defect in fitness for purpose of leased asset, except the lessee suffers loss as a result of reliance on the lessor (S 31,32,33)
- Right of inspection of the leased asset and obligation to provide information on the leased asset (s,26 & 27)
- Ownership is not impaired by mere fixation of leased asset to land or building (s19)
- The implied legal ownership of lessor shall prevail at all times, except against a person in a non-registered lease (s19 &21)
- Prohibition against sale and transfer of the leased asset or any act inconsistent with ownership right of the lessor
- Registration of lease constitute constructive notice (s 16)
- Fixation of lessors name to the leased asset (s 19)

Compliance Issues Checklist

- ✓ Lessors shall be a limited liability company with its (MEMAT) having express provision to engage in equipment leasing business
- ✓ Registration with the Registration Authority.
- ✓ Registration of leased equipment within 14 days or 3 months for a lease made before commencement of the Act.
- ✓ Delivery of lease agreement within 14 days.
- ✓ Provision of not less than 15 days' notice in default for non-payment of rental in required form and other notices are required.
- ✓ Adherence to other legal proceedings for termination and repossession

Insurance

- ✓ Insurer to be mutually agreed by the parties.

Capital Allowance

Capital allowance to be claimed by lessor in all leases.

End of Lease Options

- The lessee is required to return the asset upon termination of the lease in good order and working condition.(s 4(2b)
- The lessor can sale the asset or renew the lease.

Implementation of the Equipment Leasing Act

A key issue concerning the implementation of the Act is the formal inauguration of the **Equipment Leasing Registration Authority (the "ELRA").-** (Sections 7 and 8) to:

- ✓ Register lease agreements & lessors.
- ✓ Determine eligibility of persons & requirements
- ✓ Register and investigate incidence of default
- ✓ Establish & maintain register of persons entitled to carry on business of leasing
- ✓ Undertake other activities to give effects to the Act and other functions conferred by the Act Non – registration makes the lease agreement invalid but not unenforceable against third party.

Benefits of the Inauguration of the ELRA

- ❑ **Protection of the rights of the parties:** For instance, concerning the preservation of the lessor's rights of ownership. By section 19, legal ownership of leased equipment is tied to the registration of the lease agreement with the ELRA. The Act recognises the lessor as the legal owner of a leased equipment upon registration of the lease agreement. The registration will also ensure that the implied legal ownership of a lessor or his assign shall prevail at all times over any claim by a lessee's creditor or third party.

- ❑ **Security:** For the lessor: the power of the ELRA to investigate defaults by lessees - section 9(2)(g). For the lessees: ELRA to ensure the guaranteed right to enjoy quiet possession of the equipment; protection from any unilateral and arbitrary termination by the lessor, even on the insolvency of the lessor (section 22).

- ❑ **Certainty:** The rights and benefits to be enjoyed by lessors and lessees are inextricably intertwined with the registration of the relevant agreement with the Authority. In other words, these rights can only be exercised upon registration of the requisite equipment leasing agreements.

- ❑ By the Act, the non-registration of a registrable lease agreement renders such agreement invalid and consequently unenforceable by the parties thereto (section 17). The registration of the leasing agreement is the exclusive responsibility of the Authority. **Legal issue: What is the legal status of an existing unregistered agreement?**

- ❑ Undoubtedly, the inauguration and operation of the ELRA are necessary to facilitate the optimal performance of the Nigerian equipment leasing industry.

- ❑ Transparency: The ELRA is required to maintain a register of equipment lease agreements containing the particulars of the lessor, the lessee and the leased equipment. The register will be made available for inspection by the public upon paying a prescribed fee (section 12).

- ❑ This access to the register of equipment lease agreements will promote transparency in the industry. Prospective lessors can thus assess the track records of potential lessees at the preliminary stage in order to make better-informed decisions and agreements (and vice versa).

- ❑ This may help reduce the incidence of defaults in the payment of rentals, increase the profitability of the industry to lessors, and promote investor confidence.

- ❑ Other Benefits: The inauguration and operation of the ELRA will ensure consistency, growth, increased investments and job creation in the leasing industry and, ultimately, the economy at large.

- ❑ Investment Promotion: The registration of companies engaged in equipment leasing (which can only happen when the ELRA is formally inaugurated) will facilitate foreign direct investment in Nigeria. Registration confers credibility and legitimacy to secure funding to expand their leasing capacity and business operations. For instance, since 2008, the International Finance Corporation [IFC], through the Africa Leasing Facility I and Africa Leasing Facility II, has facilitated lease financing to the tune of $257 million to several African countries such as Ghana, Rwanda and Tanzania. An operational legal and regulatory framework for the leasing industry will incentivise investors to support local lessors and lessees. [Source: Equipment Leasing in Africa: Handbook of Regional Statistics 2017' International Finance Corporation (IFC) 2018]:.

- ❑ The operational legal framework there encouraged the IFC to support the country's leasing association in training 2,500 small business owners, equipment and car dealer employees, financial and legal professionals, and government employees across the country.

Indeed, the implementation of the Act will create an enabling environment for leasing that will lead to the following benefits:

1. **For ordinary Nigerians:** easier ways to acquire assets to enhance quality of life and more business and job opportunities
2. **For small businesses:** easier ways to acquire productive assets for growth and job creation
3. **For all levels of government:** well-regulated financial sector, increased investment, increased tax revenue, job creation and poverty reduction
4. **For the industry:** certainty, security, consistency, growth
5. **For Nigeria's economy:** more investment, production and economic growth

The full implementation of the Equipment Leasing Act will no doubt facilitate further development of the industry ad enhance its contribution to national economy.

2. ACCOUNTING.

The accounting environment has changed in line with the International Financial Reporting Standard (IFRS) 16. The standard is intended to improve the financial reporting of leasing activities. Basically, the IFRS 16 replaced IAS 17, and came into effect on January 1, 2019. The changes in the new Standard, mainly affect the accounting for operating leases by the lessee focusing on the elimination of off-balance sheet financing.

In essence, a lessee is generally now expected to account for all leases similarly to the accounting for finance leases under IAS 17 except assets of low value such as furniture and laptops (value not exceeding $5,000) and leases of 12 months or less. The lessor accounting for leases remains unchanged. However, it will affect the business model of the lessor as demand for operating lease motivated mainly by off-balance sheet benefit, will decline.

ACCOUNTING STANDARD FOR LEASE – IFRS 16

Why IFRS 16 was issued

- IAS 17 lacked transparency or aided non-transparency and was criticized for not requiring lessees to recognise assets and liabilities arising from operating leases
- many users adjusted a lessee's financial statements by estimating how operating leases should be capitalised in order to reflect the financing and assets provided by leases
- two different lessee accounting models meant that transactions that were economically similar could be accounted for very differently, thus reducing comparability
- Users had inadequate information about a lessor's exposure to credit risk (arising from a lease) and exposure to asset risk (arising from the lessor's retained interest in the asset)

Accounting Standard for Lease: IFRS 16

The biggest change introduced by IFRS 16: assets and liabilities arising from a lease will be brought onto a lessees' balance sheet as if the asset were purchased and financed with debt.
removes the classification of leases as either operating leases or finance leases (for the lessee — the lease customer), treating all leases in a manner similar to finance leases.

Objective
The objective of IFRS 16 is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. It sets out the principles for the recognition, measurement, presentation and disclosure of leases in the financial statements.

ACCOUNTING REQUIREMENTS: Initial Recognition & Measurement

At commencement date, a lessee shall recognise

I. Right of Use Asset

- Initial measurement of lease liability
- Any lease payments made at or before commencement date
- Any initial direct costs (legal costs, etc.)
- Any dismantling costs to restore site back at end of lease term

II. Lease Liability

- PV of lease payments not paid at commencement date
- Less any lease incentives
- Any variable payments depending on an index (e.g CPI)
- Amount payable under residual value guarantees
- Purchase options (if reasonably certain to be exercised)

Lessee Accounting: Subsequent Measurement

Right of Use Asset

Normally measured at **cost less Accumulated Depreciation & impairment losses** (IAS 16)

Depreciation from commencement date to earlier of end of useful life or lease term. However, if ownership is transferred to lessee at end of useful life, then ROU asset depreciated over useful life of asset.

Alternatively

Revaluation model: Optional if ROU asset relates to a class of PPE measured using revaluation model.

Fair value model: Compulsory if ROU meets the definition of investment property and lessee uses fair value model.

Lease Liability

After commencement date, the carrying amount of the lease liability is increased by interest charges on the outstanding liability and reduced by lease payments. (Amortised Cost)

Key Impacts of IFRS 16 Leases

Definition of lease

The definition of leases presented in IFRS 16 is largely retained from IAS 17 but the guidance implementation has changed. Emphasis is now placed on concept of Control of Asset. Therefore, companies would have to reassess all previous decisions about whether existing contracts do or do not contain leases.

- **Faithful and More Transparent Representation:**

IFRS 16 will help improve the information available to lease stakeholders especially investors when making investment decisions. The implementation of the standard will help create a more level playing field in providing transparent information about leases to all market participants.

- **Improved Decision Making:**

IFRS 16 presents a single lease framework of accounting for leases; Companies will benefit from managing all leases in the same way by arriving broader decisions that takes care and serves as umbrella policy for their lease portfolios.

- **Improved comparability**

IFRS 16 will help to significantly improve the comparability of financial information. Because companies will:

(a) recognise assets and liabilities, in essence, for all leases;
(b) measure all lease assets and all lease liabilities in the same way; and
(c) recognise only the rights that are obtained, and the liabilities that are incurred, through a lease.

As a result, financial statements will reflect the differing operating decisions made by different companies.

- **No Financial Statement Adjustments:**

IFRS 16 is expected to reduce the need to make adjustments to financial statements by providing a richer set of information than what was available when companies applied IAS 17, providing further insight into a company's operations and funding.

- **Benefit to smaller companies**

Among assets commonly leased, office furniture, personal computers and mobile phones are typically expected to qualify as low-value assets. Consequently, it is expected that smaller companies leasing some classes of assets and office equipment will benefit from this exemption, as they are not required to capitalise (i.e not increasing liabilities) but expense lease payments

- **Tax issues:**

Paragraph 18(2) of the second schedule of the Companies Income Tax Act (CITA) provides for the legal basis for the tax treatment of leases. The dynamics of IFRS 16 may have significantly alter the tax arrangement envisaged by the ACT. The Federal Inland Revenue Service (FIRS) is best consulted for guidance on this.

Metrics (What is Measured)	Explanation/Reasons
Leverage (Gearing) Long-term solvency	Liabilities/Equity Increase because financial liabilities increase
Current ratio Liquidity	Current Asset/Current Liabilities Decrease because current lease liabilities increase while current assets do not
Asset Turnover Profitability	Sales/Total Assets Decrease because lease assets will be recognized as part of total assets
Interest cover Long-term solvency	EBITDA/interest expense EBITDA will increase as interest expense increases.
Operating cash flow Profitability	Increase because at least part of the lease payments (those payments relating to the principal) will be moved to the financing section of the cash flow statement

How IFRS 16 Leases will likely Impact Financial Metrics/Ratios

IFRS 16: Useful Implementation Considerations

I. Accounting

I. Classifying contracts: Identify contracts not previously assessed (i.e using previous IAS 17) & apply IFRS 16
ii. Identify key contract features: Determine lease terms, value of lease payments, the implicit interest rate.
iii. Contracts with multiple components: Identify stand-alone selling prices and determine whether to apply the practical expedients.
iv. Deferred tax: Impact on deferred tax
v. Disclosures: Determine the required disclosures and to what extent the disclosures aggregated.
vi. Documentation: New accounting policies. Documentation for key judgments applied
vii. Application of exemptions: Determine the threshold for low-value assets and whether to apply low-value assets and short-term leases exemption.

ii. Operational

I. Training of finance teams and other relevant departments.
ii. Review of IT systems.
iii. Review of the completeness and accuracy of the contract data.
iv. Review control procedures and lease approval processes.
v. Internal controls over lease processes and accounting.
vi. Communication of changes and ensure project plan in place

iii. Commercial

I. Impact on future financing: Greater financial transparency
ii. Impact on tax payments and deferred tax: Timing of profit recognition
iii. Bonus schemes: Are targets based on EBITDA
iv. Compliance with loan covenants
v. Procurement strategy: Lease or buy

In essence, the objective of this new rule is to ensure that companies report information for all of their leased assets and bring transparency on companies' leased assets and liabilities.

2. TAXATION

Nigeria has no specific law relating to taxation of leasing companies. Leasing organisations are therefore subject to the tax Laws applicable to all companies, although there are specific sections on leasing such as those relating to capital allowance claimable on leased assets.

Basically, two types of leases exist for tax purpose. A lease is either a tax lease or a non-tax lease. A tax lease is one which qualifies for tax purposes while the non-tax lease is one which is considered to be a loan. Generally, in some countries (including Nigeria) considered as "substance" countries, guidelines have been made to distinguish between these two types of leases.

If a lease has features such as a purchase option that indicate ownership, it will be treated as a purchase or loan. Thus, it could be said that a finance lease under this circumstance would not qualify as a true lease, since the true intention of the parties is for the lessee to own the asset at the end of the transaction. Operating lease with its characteristics, is regarded by the tax authorities as a true lease and would entitle the lessor to claim tax depreciation and the lessee, the rent expense.

Some of the laws that have direct impact on leasing include:

1 Companies Income Tax Act (Cap C. 21, LFN 2004)
2 Value Added Tax Act (cap VI LFN 2004)
3 Capital Gains Tax Act (Cap CI, LFN 2004 as amended
4 Equipment Leasing Act 2015

The Federal Inland Revenue Service had in April 2010 issued a circular **"Guidelines on the Tax Implications of Leasing"** pursuant to the provisions of these Acts, to explain the principle guiding lease arrangement in Nigeria.

Tax implications on leases prior to IFRS 16

Tax implications of Finance lease

Tax Types	Lessee	Lessor
CIT	-The interest portion of the periodic lease rent and other related expenses such as insurance, maintenance cost are deductible expenses for income tax purpose -The lessee is entitled to claim capital allowance on capital portion of the value of the leased-assets;	-The interest portion of the rent earned by the Lessor constitutes taxable income in the hand of the Lessor -Capital portion is a repayment of initial investment and has no tax implication; -The Lessor is not entitled to claim capital allowance on the leased assets
VAT	The input tax incurred on purchase of the assets is to be capitalised with the cost of the assets	Interest earned by the Lessor on finance lease is a return on investment and is not liable to VAT.
WHT	The Lessee has a duty to withhold tax at 10% on the interest portion of the lease rental	Credit note will be issued in the name of the Lessor
CGT	CGT will not be applicable to the Lessee unless the gain arose from the sale of his interest in the lease. However, he will be liable to CGT if the leases asset was sold by him after exercising the purchase option	If the asset is disposed at the expiration of the lease period, any capital gain realised would be subject to CGT

Tax implications of Operating Lease

Tax Types	Lessee	Lessor
CIT	-The rental charges and other associated expenses are allowable deductions for tax purposes; -Capital allowances can only be claimed by the Lessor; capital allowances should not be claimed by the lessee on assets under operating lease;	-The total lease rental received or receivable by the Lessor is income, and it is wholly taxable -The Lessor is entitled to claim capital allowance on the leased assets
VAT	VAT charged by the Lessor on the lease rental charge is not an input tax to the Lessee; it is to be charged to the income statement.	The lease rental income is liable to VAT; the Lessor is to include a 7.5% VAT charge on its invoice to the lessee
WHT	The Lessee shall withhold tax at 10% from the rental payment	Withholding tax credit will be used to offset lessor's income tax liability

Tax implications of IFRS 16 Lease Accounting

Under IFRS 16, the lessee is expected to, for all leases (other than leases with a duration of less than 12 months or leases for low-value assets):

1. Recognise an asset and a corresponding liability equal to the present value (PV) of all future unavoidable payments due on the lease.
2. Recognise a depreciation expense and an interest expense separately in the income statement.

3. Separate the total amount of cash paid into a principal portion (presented under financing activities) and interest (typically presented either under operating or financing activities) in the cash flow statement.

The generally accepted tax treatment is to disallow depreciation and the notional interest based on the provisions of CITA. The lessee should not be able to claim capital allowances on the value of the asset recognised. However, the actual cash payment would be allowed as a tax-deductible expense.

There is clearly need to keep additional accounting information that shows the relationship between the periodic rental payments, the depreciation and interest expense recognized in the books for review in order to ensure that the proper treatment is accorded to the relevant item.

Tax implications of IFRS 16

Tax Types	Lessee	Lessor
CIT	-Non -deductible of depreciation and notional interest ;Actual rental cash payment are allowable deductions - Capital allowances cannot be claimed	-The QCE is limited to the total lease rental payments The total Leaser rental received, or receivable should be subject to income tax -The Lessor is entitled to claim capital allowance only on the present value of the lease rental payment.
VAT	VAT charged by the Lessor on the lease rental charge is not an input tax to the Lessee; it is to be charged to the income statement.	The lease rental income is liable to VAT; the Lessor is to include a 7.5% VAT charge on its invoice to the lessee
WHT	The Lessee shall withhold tax at 10% from the rental payment	Withholding tax credit will be used to offset lessor's income tax liability

To fully enjoy the tax benefits arising from leasing, harmonisation of the regulatory framework, including the Equipment Leasing Act, IFRS, and respective tax laws, is required.

Indeed, the regulatory environment comprising legal, accounting and taxation frameworks, is a key success factor in the leasing industry. This environment has undergone major changes over time, while some are positive, the industry still struggles under the weight of the regulatory framework. It is therefore imperative for stakeholders, especially the government to look at the various policy issues that hinder the growth and development of the leasing industry, while expanding its support interventions for the leasing industry.

Rc 725990
MICRO INVESTMENT
SUPPORT SERVICES
EXCELLENT LEASING SERVICES
Air Conditioner
Plasma TV
Photocopier Machine
Generator Set 20KVA
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Freezer
Moulding Block Machine
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LEASING TITBITS

Default and Portfolio Management

- ▪ What are default triggers?
- ✓ The role of documentation
- ✓ Structuring skills
- ✓ Asset management skills
- ✓ Risks assessment process
- ✓ Role of staff

Non-Performing Lease Management

- Identify and Isolate Non-performing lease transactions
  - ✓ Categorise the transactions
- Analyse/Review all due diligence procedures and documentation.
- Analyse the current environment of default in view of the subsisting agreement governing the transaction; lessee state of affairs, credit rating etc.
- Remove Account Officers
- Commence Repossession and/or Legal Proceedings which include:
  - ✓ repossession
  - ✓ Acceleration of payments
  - ✓ Declaration that any and all deposits or prepayments held by the lessor are payable
  - ✓ Move to collect any additional guarantees, personal and corporate
- Gain the corporation of the lessee
- Gain the corporation of the vendor
- Assumption of exiting lease by new lessee
- Re-leasing the repossessed equipment at its depreciated value
- Sale of the remaining lease payments
- Periodic contact with the lessee

LEASE IT DON'T BUY IT!

WORK EFFICIENCY

Work efficiency is the greatest amount of tasks and labour accomplished with the least amount of time and effort. Excellent work efficiency can lead to high levels of productivity. Organisations might often encourage employees to improve their work efficiency because this can promote success in the business.

Every organisation pays it's employees for their hard work and efficiency. Individuals need to achieve the assigned targets within the desired time frame. It is essential for employees to meet deadlines and deliver results on time. Why would an organisation promote you if you do not accomplish tasks within the desired time frame? Employees need to be efficient and proactive for better productivity.

Delaying work leads to no solution. One needs to adopt a systematic approach to be efficient at the workplace. Do not start a new task unless and until you are through with your previous assignments. Employees tend to be efficient when they take their work seriously and do not treat it as a mere source of burden.

Many employees have assignments with strict deadlines and monthly goals to meet in order to measure progress and efficiency. If you actively improve your efficiency, it may show your managers your dedication to the role, desire for success and eagerness to grow your skills. Maintaining efficiency can ensure you are effectively fulfilling your job role and managing your responsibilities.

Your motive in life should be very clear. Why do you come to work? Ask yourself.

Is it only for money?

Or is it to grow professionally and make a mark of your own?

If you come to office just to while away time , think again!!!

Let us go through some simple tips which increase efficiency at the workplace:

Prioritise your work and adopt a step by step approach. Focus on what is important and urgent. Important and urgent tasks should be finished first. Adopt a focused approach at work. Focusing on the most important thing increases your efficiency. Being efficient does not mean that you accomplish more work in less time, ignoring the quality of work. Never compromise on quality. Employees need to concentrate on work not only to deliver results on time but also yield high quality output. An employee is said to be efficient only when he accomplishes assigned tasks on time, with minimum errors. You need to produce quality work in the minimum possible time. Plan your day well. Before you begin your day, make a list of activities which you need to accomplish before you call it a day.

Organise your workstation. Get rid of things you no longer need. Keep important documents in a proper folder so that you do not waste time in unnecessary searching and have a clear mind to work. Stay organised and get rid of clutter. Tidy up your desk. Keep everything at its proper place. Label files accordingly . Being organised at work increases efficiency and productivity of employees. A messy desk does not allow employees to have a clear mind and concentrate in work.

To do list helps you know what all is important and needs to be done on a high priority. Put a tick mark against tasks which have been accomplished.

Do not while away time chatting with friends and family over the phone, on social networking sites, playing games on laptop and phone. Such practice shows inefficient at the workplace.

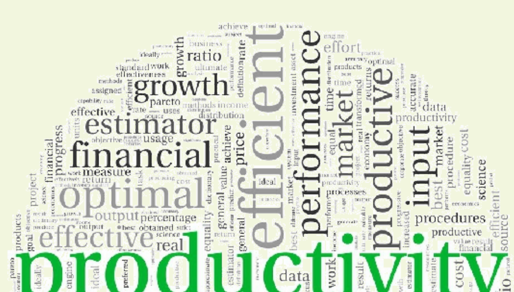
Finish your work on time, go home and enjoy with your friends and family. Sitting late in the office does not prove that you are a diligent employee but indicates that you have poor time management skills and are absolutely unorganised and inefficient. Who asks you to sit in the office till late?

Give yourself a deadline and strive hard to finish your work on or before time. Give yourself a pat on your back whenever you meet deadlines and accomplish work on time. For an organisation to run smoothly, it is essential for employees to ensure tasks are accomplished within the stipulated time frame. Employees need to find their jobs interesting for them to feel motivated. Why would an organisation hire you if you are incapable of delivering quality results within the desired time frame?

Duplication of work decreases efficiency of employees. Team members need to communicate among themselves to find out what each one is up to? If you are working on a particular assignment, make sure your colleague is working on something else.

Employers must keep an eye out for efficiency at the workplace to ensure that the team is working at its optimised potential. An efficient employee would methodically manage their time and effort to tick off the day's entire task list, with maximum attention to quality. Employee should put their personal problems on the backburner at the workplace. if you are not efficient and proactive, you will soon be shown the exit door. Developing a laidback attitude at work would not help you in the long run. Reach the office on time, plan your day, jot down what all needs to be done, focus on work, finish it, leave on time and enjoy your personal life to the fullest. This way, you would not only climb the success ladder within the shortest possible time frame but also lead a stress free and happy life and enjoy coming to work. Make up your mind today to be efficient and productive at work place. It is up to you to take decision.

Article by:
Ifeyinwa Anderson
Lead, Business Development & Corporate Services
Equipment Leasing Association of Nigeria Ltd/Gte.



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GLOBAL LEASING LIMITED

Our Business Model is To Provide Full Range Logistics Support Service, Procurement, Engineering, Security Support, Catering and Housekeeping, Marine & other Equipment leasing Delivered By Well Trained and Highly Motivated Personnel to Clients On Land, Swamp, Shallow and Deep Waters.

HARD LEASING:

- Car rental services
- Medium and heavy duty equipment leasing
- Air compressors and generators
- Lifting devices, Cranes, Forklifts, man lifts
- Fast patrol/Security vessels / Houseboats
- Crew boat and supply vessels/ Barges
- Workboats, workbarges
- Tug boat and swamp buggies
- Porta cabins for land and swamp locations

SOFT LEASING:

- Catering services
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- Facilities management
- Logistics support services
- Supply chain management
- Outsourcing services
- Secondment of professionals
- Back office management
- Manpower supply services

ENGINEERING:

- Fabrication, laying and maintenance Of flow-line.
- Mechanical modification of platforms, wellhead and pipe networking
- Civil and electrical works
- Plumbing installation/ maintenance and materials services
- Solar energy product
- Road Construction Works
- Location Preparation for FLB's

SECURITY SERVICES:

- Provision of sercurity guards (armed and unarmed)
- Intelligence gathering
- Provision of escort services On land and water
- Provision of armoured vehicles
- Gunboat support in conjunction With the military Information and intelligence gathering

PROCUREMENT:

- Various Valves, Tubing and Pipes etc.
- Procurement of Industrial and heavy duty equipment
- Offshore and onshore supplies of diesel to locations
- Safety, Laboratory equipment and Chemicals

HEAD OFFICE:
No 6 Arochukwu Street, Rumuomasi,
Port Harcourt, Rivers State.

Tel/fax: 08133502577
Email: info@kevesgloballeasing.com
Website: www.kevesgloballeasing.com

JETTY FACILITY:
EL-TOTUMA JETTY
Off ALCON Road, opp Creek View Hotel Woji town, Port Harcourt, Rivers State.
Phone: +2348035458196

Email: info@kevesgloballeasing.com
Website: www.kevesgloballeasing.com