



## **Special Aspects of Leasing Activities and Its Meaning in Conditions of Enterprise Competitiveness**

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### **ABSTRACT**

The relevance of this article is determined due to the fact that leasing as a form of entrepreneurial activities related to the transfer of property under a lease, it already is known abroad for several decades. At present, both in foreign and in domestic practice leasing basically ceased to be an element of innovation in the beginning of his understanding and implementation in economic activity. The importance of use evaluating of leasing schemes in the Russian practice is determined by the current state of the leasing sector of the Russian economy. Currently, the majority of Russian companies does not have sufficient amount of own funds for the purchase of modern production equipment. In this regard, there is a need to raise additional funds, the most common method which is to obtain bank loans. One of the alternative forms of financing the organization is leasing. In those cases where the lease as an investment method provides innovation, it takes on a new economic sense becomes an innovation. In this sense the economic category of leasing has not lost its relevance today as in the practical application, and its theoretical understanding. Russian economic theory and practice of management today pays insufficient attention to the study of these processes, the creation of adequate conditions for their implementation and regular development.

**Keywords:** Leasing, Leasing Administration, Management, Competitiveness

**JEL Classifications:** G11, G31, L26

### **1. INTRODUCTION**

In theoretical study there is no clear definition of the lease. This not only complicates the position and role as a category of leasing relations in economics, but no significant progress towards implementation of leasing in the country's economic system.

The leasing business as a form of entrepreneurial activity is known abroad for many years. However, the very idea of leasing appeared long before the new era in the ancient state Sumer. British researcher T. Clark argues that the relationship similar to leasing, were already known in the days leading up to the age of Aristotle's life (The King Hammurabi, in the Institutes of Justinian), that is, around 1800 BC (Korotkov, 2013).

Problems of leasing relations of economic entities are considered domestic and foreign scholars and practitioners: V.A. Goremykin, V.D. Gazmanov, N.G. Zhurkina, A.G. Kulikov and others (Shuvaeva and Meshkov, 2012). Their work explores the general theoretical questions of leasing, its structure and classification of the different methods of calculating the lease payments and other aspects of the problem.

### **2. MATERIALS AND METHODS**

The methodological basis of research was made theoretical principles and fundamental concepts in classical and modern works of domestic and foreign scholars on the issue and process management elements of leasing activity. Practical findings in studies done on the basis of generalization of legal, statistical and

analytical materials of the Russian Government, the State Statistics Committee of the Russian Federation, the Ministry of Economy.

To realize the goal of the work and decisions of certain problems in it the authors used an analytical, logical, economic and statistical, computational and constructive methods.

### 3. DISCUSSION

In Venice of XI century there were also economic relations such leasing: Venetians leased to owners of merchant ships are very expensive at the time of the armature. After swimming “iron values” came back owners who release them. And although one cannot say that these sources dealt with the leasing relationship in the modern sense, but even then their main idea was formulated.

The basic literature on leasing the first mention of leasing relations refers to the end of the XIX century, when the “telephone company” Bell “has decided not to sell their phones, and lease them” (Goremykin, 2014; Shtelmakh, 2015).

In the opinion of many foreign and domestic economists, among whom can be named V. Hoyer, D. Lavrushina, E. Chekmareva, Smirnov and others, the event was first described economics as leasing relationships, and it entered the lexicon of the term “leasing” (Komarov, 2015). However, it should be noted that in its economic essence of the company “Bell” operation is no different from the sale of goods on credit or commercial credit. In the detailed description of the company’s operations B. Hoyer did not complete idea of leasing relations in their modern understanding.

In the modern sense is a type of financial leasing services, lending form to which the company resorted to the acquisition of fixed assets, or individuals when purchasing very expensive goods.

The lessor provides the acquisition of commitment to the ownership of the property determined by the lessee from a particular vendor, and give the property to the lessee for temporary possession and use for a certain stipulated in the contract fee.

Sometimes the contract may provide for a clause stating that the choice of the seller and the purchased property makes the lessor. Lessee may initially be the owner of the property.

One of the distinguishing characteristics of the lease in relation to the commercial loan or hire purchase is the subject of delimitation of ownership of transactions. Objects of the leasing relationship are transferred to the lessee only use rights, and the owner of the property leasing is the lessor.

In Russia, leasing operations are regulated by the Civil Code (Chapter 34 clause 6 “Financial rent [leasing]”) and the Federal Law of the Russian Federation from December 29, 1998 No. 164 (in the red. from December 31, 2014) “On Leasing.”

Define the main actors of modern leasing operations:

- The lessee (client, usually a legal entity);
- The lessor (a commercial bank or other credit nonbank);

- Provider (the party that sells equipment: The company, real estate company, the dealer);
- Insurer (any insurance company).

Consider the role and function of each of these participants in the leasing process.

Lessee is called the natural or legal person who, in accordance with the lease agreement is obliged to own the leased asset for a fee, for a specified period and under certain conditions (Chetyrkin, 2015; Juha, 2015).

Lessor is the person or entity that is through debt or equity of the acquired during the implementation of the agreement of leasing in property assets and provides it as a leased asset to the lessee for a fee, for a specified period and under certain conditions for temporary possession and use with or without transfer to the lessee of ownership of the leased asset. As it has already been noted above, as the lessor may be a commercial bank, non-bank credit organization, leasing company.

Seller, in accordance with the stipulations of the contract – the sale, is obliged to transfer the leased asset to the lessor or the lessee. Within a single contract of leasing dealer can simultaneously act as the lessee. Any of the participants of the leasing contract can be both resident and non-resident of the Russian Federation.

The function of the insurer in the leasing transaction is the insurance contract at the conclusion of the leasing contract between the lessee and the lessor. However, unlike other participants, the insurer is not a necessary party to a leasing transaction. The presence of the insurer is necessary in certain cases when it is necessary to carry out insurance transactions.

By default, the risk of accidental loss or accidental damage of property received under the lease agreement, transferred to the lessee at the time of the property, if the special conditions in this regard are not stipulated in the lease agreement.

The lessee has the right to submission of claims about the quality and completeness of the acquired assets in leasing, as well as the timing of its delivery directly to the seller of the property that is the subject of the sales contract concluded between the seller and lessor. The lessee acquires the rights and obligations of the property, received in leasing, provided by the Civil Code of the Russian Federation for the buyer, except the obligation to pay for the purchased property.

However, the lessee has the right to terminate the contract of sale with the seller without the consent of the lessor. In relations with the seller lessor and lessee act as joint and several creditors, that is, every one of them has the right to submission of claims in full.

The leasing agreement combines the obligations of the parties, which are performed by parties other contracts, which are formed by the conclusion of other subjects compulsory leasing and related agreements: The agreement on raising funds, pledge agreement,

guarantee agreement, surety agreement. The lease agreement shall be in writing.

Financial leasing is a type of lease in which the lessor acquires the property specified by the lessee from a particular seller and transfers the property to the lessee as the leased asset for a fee, for a specified period and under certain conditions for temporary use. In this period of the lease duration should be equal to the term of full amortization of the leased asset or exceed it. At the end of the lease contract the leased asset becomes the property of the lessee.

Financial leasing is divided into direct and return. Direct leasing is most commonly used in the event that the lessee needs refurbishing existing technical capacity. In this case, the lessor provides financing wholly acquired in leasing the property. Figure 1 demonstrates an example of direct leasing.

Redemption leasing is a kind of financial leasing in which the seller of the property which is the subject of leasing, and simultaneously acts as a lessee. Redemption leasing algorithm is shown in Figure 2.

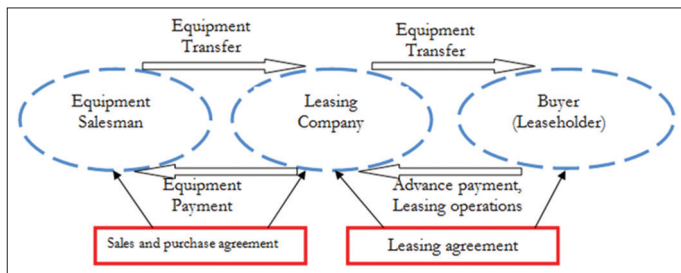
The essence of back leasing is that the lessor acquires the property of the lessee and immediately offered him the property for lease. Thus the model company with leaseback receives funds back guarantee which is his own property mortgaged to the lessor. At the present time in Russia this type of lease is quite popular.

Operational leasing is called a type of lease in which the lessor acquires the property at your own risk, and then passes it to the lessee as the leased asset. This type of lease is not popular in Russia due to the high risk.

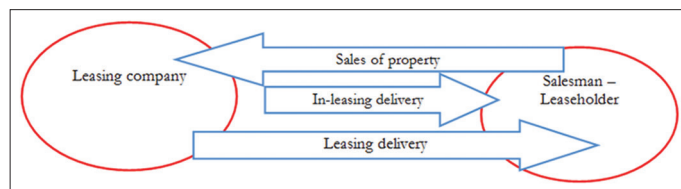
Lessee may choose operational leasing, in the following cases:

1. If necessary to take advantage of leasing the property only for a time, to perform a single operation;
2. If the leased property is fast becoming obsolete and the lessee assumes that a new, more sophisticated and effective property will be after the end of the lease term.

**Figure 1:** Direct leasing scheme



**Figure 2:** Redemption leasing algorithm



It should also be noted that there is a type of leasing as subleasing, carried out by intermediaries. Subleasing procedure is as follows: The main lessor, with the help of a mediator (which is usually also the leasing company) leases the property to the lessee (Gazmana, 2014). The lease agreement provided that in case of insolvency or bankruptcy of the intermediary leasing payments should reach the main lessor.

Credit institutions are also involved in providing financial services to rent or lease, through a specially created for this subsidiary leasing companies. Leasing credit institutions include credit elements, leases and supply, that is, leasing is not the banking operation, and a special kind of business.

Driving leasing operations carried out by the credit institution, as follows. After the adoption of a credit institution (the lessor) a positive decision on the enterprise application for a lease, there is a stage of signing the necessary agreements between the lessor, lessee, supplier, and, if necessary, by the insurer. After the conclusion of all necessary contracts going delivery of the leased asset, either directly to the customer, or first to the lessor according to the conditions specified in the lease agreement.

Since the transfer of the equipment that is the subject of the lease, the lessee, it is responsible for the safety and maintenance of the equipment in working condition, if the lease agreement does not specify any other conditions (Kobersy et al., 2016). During the term of the contract the ownership of the lease the leased asset remains with the lessor and the lessee uses the equipment for their own purposes by paying a monthly or quarterly (depending on the conditions of the leasing contract) payments for the use of the property.

If the lessee fails to make payments under the lease payment schedule approved in the lease agreement, the lessor has the right to withdraw the property which belongs to him by right of ownership (Zhurkina, 2014), and implement it in the secondary market. In the case of lease payments by the client in accordance with the schedule during the period of the leasing contract and pays the full amount specified in the agreement, ownership of the equipment is transferred to it. All income and profits derived by the lessee in the use of equipment, are the property of the lessee.

Leasing application allows the lessee to save on taxes. In Chapter 25 of the Tax Code states that payments under lease agreements in full reduce the tax base for income tax. That is, the state provides a legal possibility to domestic enterprises using leasing, use their resources for the automation and modernization of production and introduction of new technologies, encouraging them to decrease the tax burden.

Despite the fact that the leasing interest rates are often 2-4% higher than the rate in obtaining credit, as a result of leasing operation is for the lessee by 15-20% cheaper than a loan by the total tax savings, improve technical capabilities the lessee and other benefits as a whole. Leasing allows the lessee without any complications upgrade process equipment that is to increase the economic potential of the enterprise (Rylov et al., 2016). Leasing is

an effective way to replace obsolete equipment, which is available for many businesses.

When purchasing equipment, the lessee is able to plan your business in the future, reduce the key risks.

Risk minimization is carried out in connection with the limited liability of the lessee. The company-lessor also reduces the risk of non-payment under the lease agreement (compared to credit risk), because it has an indisputable right to own property, and therefore in case of bankruptcy of the lessee receives a first right to reimbursement.

In connection with the minimization of the risks of the leasing business, the company is easier to conclude an agreement on financial lease than to get a long-term loan. This is especially true for small and medium businesses, for which a loan is associated with a number of difficulties and limitations (e.g., collateral required). At the conclusion of the leasing contract is a guarantee obtained in leasing equipment. Leasing operation scheme is represented in the Figure 3.

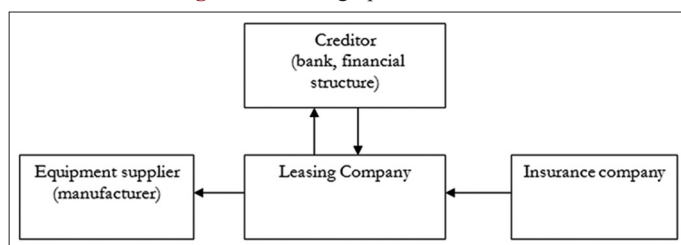
Thus, leasing is a type of financial services, lending form to which the company resorted to the acquisition of fixed assets for the purpose of modernization of the enterprise.

Leasing operation is beneficial for both parties. For the company-lessor reduces the risk of non-payment under the lease agreement (compared to credit risk), because it has an indisputable right to own property, and therefore in case of bankruptcy of the lessee receives a first right to reimbursement (Ivanov, 2016).

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Analysis of the financial condition of the domestic economic agents leads to the conclusion that at present most of its real economic units that own surplus funds or to have access to them, are the banking institutions (Kharitonov, 2014; Kharitonov, 2015). The latter have the advantage over the already created by the leasing companies that the banks – it's organizational structure and designed for leasing operations need only selection in the structure of the profile card, which would include experts with experience

**Figure 3:** Leasing operation scheme



of banking work, knowing the specifics of leasing transactions. If the bank has not established, it can prepare them quickly.

Thus, although the leasing and involved elements of the lease, leasing has a broader meaning and in his understanding of the theoretical and practical application. Full identification of the lease, the rental leads to incomplete, truncated review of these relations that impoverish unfairly and does not disclose all the features and leasing versions.

#### 4. CLASSIFICATION OF LEASING

The most detailed definition of the concept of leasing enables classification of the lease, which allows covering all forms of investment and innovative tool. That is why it is important to mention the nature of leasing as a form of innovation to give a complete classification of lease species contained in the literature, which is characterized by the following features: The composition of the participants of leasing relations; type of transmission in the lease of property; its degree of payback; amortization conditions; the volume of services; sector of the market of leasing relations; relation to tax and depreciation benefits. The shape of the lease is divided into: Internal leasing; international leasing.

In domestic leasing all participants in the leasing transaction are residents of the Russian Federation. When international leasing one or more parties to the transaction are not residents of the Russian Federation. Classification by type of leasing: A long-term lease (up to 3 years); Midterm lease (from 1.5 to 3 years); Short-term leasing.

Classification by leasing: Financial leasing; operational leasing.

Depending on the composition of the participants (subjects) of leasing relations are distinguished: Direct leasing, when the transfer of property is not mediocre by the lessor; leaseback under which a property owner sells his future to the lessor, often in the role of a commercial bank, and simultaneously enters into a relationship with him as a user of the property.

Depending on the type of property to be transferred to leasing, are distinguished: Leasing passive (immovable) property; leasing active (movable) property, or machine-technical leasing.

In terms of payback property release:

- Leasing with full payback in which during the term of a contract comes full payment of the cost of the leased property to the lessor. At the end of the leasing contract the lessee the opportunity to purchase the equipment at the residual or other agreed value;
- Leasing with partial payback, in which during the term of a contract pays only part of the cost of the leased property, then the property shall be returned to the lessor, or lease agreement is extended.

Thus, depending on the conditions provided by the participants of the leasing transaction, identify different types of leasing. Due to the fact that the division is carried out for various reasons, in particular contract, the combination of different species.

## 5. DEVELOPMENT OF LEASING RELATIONS ABROAD

Consider leasing relationship abroad that has arisen before in our country and have an established history. US leasing appeared in the 50s. The US accounts for half of the global turnover of goods supplied on leasing. In 1986 he was put in equipment leasing by 85 bln. Dollars are in the United States (28% of all investment in equipment in the country).

One of the reasons for the rapid development of leasing in the US was the tax benefits: Accelerated depreciation and investment tax credit (up to 10% of the cost of new investments subtracted from the amount of tax). The right to tax benefits arises only when the contract is consistent with the rules established for rent Office US Treasury Internal Revenue, namely:

- The duration of the lease must be <30 years;
- Lease does not provide for an opportunity to buy property at a price below fair market – for example, \$ 1;
- Lease does not provide for the payment schedule, where they are more at the beginning, and then menshe - it would be evidence that the leasing is used as a means of escape from the tax;
- Lease the landlord must ensure that the normal market level of income;
- The possibility of extending the lease must take account of normal market value of the equipment.

Until 1977, the firm could borrow equipment for rent, not reflecting its value in their balance sheets, that is, took place off-balance sheet accounting. Therefore, companies that already have a solid debt could take additional equipment that is not showing an increased amount of debt.

Thus, the real debt was hidden from investors and experts. In 1976, the Financial Accounting Standards Agency issued a decree number 13, which is made to take into account some of the financial transaction as an acquisition of assets and assumption of financial liabilities. The aim of this decision was to distinguish between “true lease” and purchase with leasing.

In the decision the following items were listed:

- The right of ownership at the end of the transaction to the lessee;
- Lease deal allows you to buy the equipment at the end of the transaction at a price lower than the market;
- Term of the transaction is greater than or equal to 75% of useful life;
- The present value of lease payments (excluding payments for insurance management, tax) is greater than or equal to 90% of the normal market prices of equipment.

If the transaction satisfies at least one of these conditions, the property is recorded on the lessee’s balance sheet as an asset with an offsetting debt liability (“Finance lease liabilities”). If the deal does not meet any of the above conditions, the property is recorded in the annex to the balance of the tenant.

Reform of the tax system in the United States has reduced the availability of tax incentives through the abolition of tax investment incentives and changes in the amortization profile. Tax reform significantly reduced the economic benefit of leasing, but nevertheless its development has not stopped. The fact that repayment of the leasing transactions still has more flexibility than, for example, repayment of ordinary loans.

In the US, many leasing companies know better equipment than other lenders. Since the creditworthiness of the leasing companies depends on the ability to realize the equipment after the expiration date of the transaction, the company is very interested in leasing the most valuable and efficient equipment. In this case, they are willing to assume all such risks. Some tax breaks still remain.

In recent years the value of the leaseback agreements has increases (oil tankers, rail containers, computers, airplanes), operational leasing (transport, printing equipment). Growth of operating lease without a special tax privileges in aviation has become especially obvious.

For example, International Leasing Finance Corporation was founded in 1973 in the United States and became a public company in March 1983. There is portfolio of more than 150 aircraft. Leasing offers customers planes on 3-15 years without the need to incur huge start-up costs (Beppu, 2016). The global market for aircraft operating leasing has grown from virtually zero in 1982 to 10% of the total leasing market today.

A very popular service in the United States is the leasing of cars. In the implementation of leasing operations vehicle, operated by the lessor, it remains the property of the dealer. The exact amount of the monthly payments is unique to each machine and is calculated by a formula that includes the market value of the new car, the popularity of this particular model on the used car market and other factors.

In the UK, leasing was a significant development only after 1970, after the introduction of tax exemptions. Companies can deduct 100% of investments from taxable income in the year in which they were made. These benefits were significant only for companies with a high yield, but indirectly they are available to tenants.

The company could take advantage of tax benefits only at the end of the reporting year. Therefore, if it is to invest in the early years, she had to wait a while to benefit from these exemptions. But if she sold the equipment leasing company and then took it out (assuming that the leasing company was advancing before the end of the financial year), the indirect benefits were obtained faster.

Therefore, leasing companies open branches with different fiscal year-end. Tax Investment Allowance for free, it comes back through taxes on rental payments, but it nevertheless provides interest-free loan equal to 52% of the value of the property that was reflected in the leasing cost for the tenant.

In 1984, the UK government announced that corporation tax will be reduced from 52% to 35% by April 1986 and 100% Allowance

for the 1<sup>st</sup> year will be replaced by a 25% regressive privilege, is 25% – in the 1<sup>st</sup> year, 25% of balance – in the 2<sup>nd</sup> year, etc. The changes occurred gradually, as illustrated in Table 1.

Since the corporation tax was reduced gradually, the changes are not immediately affected the development of leasing. Part of the tax benefits preserved. This is very beneficial for leasing in the field of electronic industry. Thus, during the 1<sup>st</sup> year of the lease payments are not taxable.

In the future, the amount of the lease will depend on what will be the amount of investment, as companies will be low-income, and how many companies decide to continue to use leasing to finance their investments.

In France leases are become very common, especially the kind called “loan-to-buy.” At the moment in France develops leasing of aircraft and helicopters, ships and barges, handling equipment, containers, computers, medical equipment, printing, large-scale industrial equipment.

Leasing of movable property in France began in 1960, and the Law on Leasing was adopted in 1966. The law introduced a tax on the assignment of rights for equipment resale tenant (it is calculated from the value of the equipment at the time of the assignment), tax on transfer of rights to a third party, value added tax (the difference between the value on the balance sheet and concessions price) (Igonina, 2012). The lessor provides the lessee the right to choose.

The net book value of property transferred to the lease ranges from 1% to 7% of the original cost. Lease payments are made every 1 month, 3 months, 6 months, 1 year. They may be linear, regressive, with the highest first installment.

Leasing of real estate is determined by the law 1966. In 1967 in France were created by the company’s real estate in the area of industry and commerce (SICOM). SICOM take the form of joint-stock company with a capital of not <10 million Francs that must be fully paid up at the time of creation of a society. Leasing companies SICOM provides significant tax benefits: 85% of the profit tax exemptions, accelerated depreciation.

Typically, a real estate leasing agreement lasts from 15 to 20 years. The objects can be: Land, buildings, finishing work, means of communication system equipment, considered as a property for its intended purpose. Payment is usually made directly or mixed regressive way.

**Table 1: Tax percentage rate changes**

Financial year	Tax percentage rate, %	First year bonus, %
before 1983/1984	52	100
1983/1984	50	100
1984/1985	45	75
1985/1986	40	50
1986/1987 and so on	35	25

On Figure 4 you can see volume dynamics of leasing in France in 2010-2014, bln. euros.

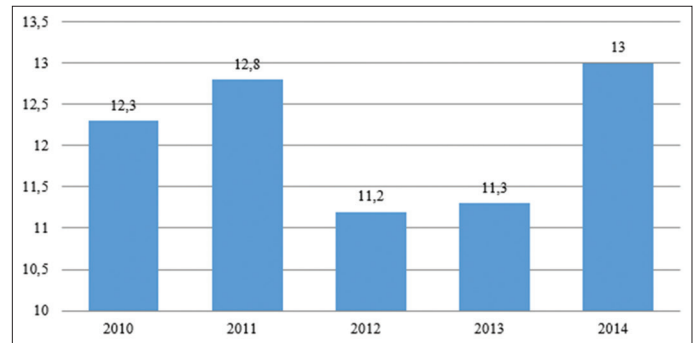
Consider the development of leasing relations in Germany. The economic situation in Germany remained stable, gross domestic product (GDP) growth stood at 3%, mainly due to exports. Studies have shown that 75% of German companies use leasing; most of them work in the service sector, a smaller part in the production. It was noted that currently there is a strong competition between the leasing companies and is expected to reduce the size and innovative products in the future.

In Germany, at the moment there are many leasing companies, 57 of them are German leasing association. Concluded in accordance with the established norms of leasing contracts allow to take advantage of a number of tax benefits.

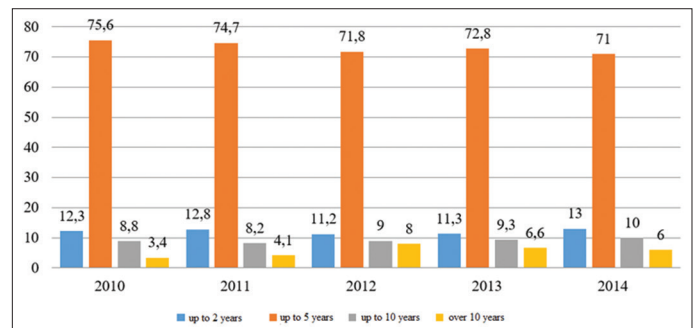
The two companies, which can be classified as leaders in the field of leasing are “Mitfinants GmbH” and “Gath-Leasing GmbH”. The company “Mitfinants GmbH” was founded in 1962. The authorized capital of the first leasing company in Germany was 1 million of Marks. During its existence the company has handed over its customer’s rental equipment with a total value of over 30 billion Euro. Figure 5 shows the timing of equipment leasing in Germany.

In Japan, the largest leasing company is “Gentury Leasing System,” founded in 1969, Its paid-up capital of 1.6 million dollars. It has branches in Hong Kong, Singapore, the United Kingdom. The shareholders of the leasing company are commercial bank

**Figure 4: Volume dynamics of leasing in France in 2010-2014, bln. euros**



**Figure 5: Time limits of leasing equipment in Germany, %**



can rely on the commercial and two insurance companies. Very powerful financial incentives are directed to leasing companies of Japan allocates Export-import Bank of Japan. Even during the crisis in Japan saved quite favorable credit conditions. Many foreign companies take out loans in Japanese banks. Analysis of international practice allows you to select some of the most important conditions of the lease contracts.

Selection of the subject of leasing – leasing company entrusts the lessee to purchase the leased asset right to him, taking into account its production needs. The subject of the lease and the supplier was chosen by the lessee without the intervention of the leasing company.

Description of the leased asset – specifies the exact name, type designation, supplies. A precise description of the subject of leasing is necessary that after the expiry of the contract, he could be identified.

Location of the leased object must be clearly defined in the contract; when changing the place the written consent of the leasing company.

Leasing period during which the contract cannot be terminated is between 40% and 90% of the period of use of property in accordance with the requirements of its operation. It is caused by tax reasons.

The delayed delivery or non-delivery – as the supplier is the lessee, with the leasing company from any liability for late delivery or non-delivery in general. Protection of property rights of the lessor – lessee has no right to dispose of leasing property, including moving it to the place specified in the contract.

Regulation of warranty claims – if the lessee having claims to the quality of the goods, he sends the claim to the supplier-lessor, which puts these warranty claims.

After-sales responsibility – problems that occur after the end of the warranty period, the lessee must be eliminated.

Operation, maintenance and upkeep the leased property shall be borne by the lessee. Only in a few cases where the contract includes additional obligations, the lessor takes on the responsibility for the maintenance and care of equipment leasing.

Insurance of leased property is usually carried out at the expense of the lessee. “Liberating” from the insurance of the lessor, the lessee thereby secures a lease at a lower price and tries to working closely with insurance companies to obtain more favorable terms of insurance. Leased property is insured against accident, fire, theft, etc.

Determination of lease payments – the parties agree on the lease payments for the entire term of the contract. Various types of discounts, increased price can be set on the new property. Delay in payment by the lessee – in this case, the lessor is entitled

to terminate the contract before the expiry of the contract, and the leasing company is a claim for compensation of the harm caused.

In developed countries, leasing is the third largest among the elements of renewal of fixed assets in the total volume of direct investments in fixed assets, and its share in GDP is 5-10%. The bulk of the world’s leasing market is concentrated in the “triangle”: US – Western Europe – Japan.

## 6. CONCLUSION

Leasing activities management is a type of financial services, lending form to which the company resorted to the acquisition of fixed assets for the purpose of modernization of the enterprise. Despite the fact that the leasing and involved elements of the lease, leasing has a broader meaning and in his understanding of the theoretical and practical application. Full identification of the lease, the rental leads to incomplete, truncated review of these relations that impoverish unfairly and does not disclose all the features and leasing versions.

Depending on the conditions provided by the participants of the leasing deal, identify different types of leasing. Due to the fact that the division is carried out for various reasons, in particular contract, the combination of different species.

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