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## **Is leasing the right choice for your next equipment purchase?**

When cash flow is tight and credit is hard to come by, leasing can be an attractive option for many types of business purchases. While circumstances can vary tremendously from one business to the next, leases can often give you a financial leg up that's important in tough business climates.

Here are three examples of purchases that you may not have considered that could be valuable investments for your business.

### **Why lease?**

There are two main types of reasons to choose leasing over traditional bank loans or outright purchases: financial and practical.

The financial reasons are more familiar to many buyers — here's a quick review.

- A lease is an **operating expense**, not a debt, so it doesn't impact your balance sheet the way a loan does. Leasing keeps your debt ratio down, allowing you to use loans for other business expenses.
- As opposed to outright purchases, leases let you **conserve capital** for operating costs, additional investments, or savings to protect you against potential losses. Even if you intend to borrow most of the cost, you'll still need a down payment for a purchase.
- Leasing can allow you to get more or **better equipment** than you could afford otherwise. At a time when credit can be hard to find, leasing lets you get the best technology without over-borrowing. Leases can also be used to finance 100% of your costs — loans are often limited to 85%.



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## **Why lease?**

The practical reasons are easy to overlook but no less important.

- Leasing makes it easier to **stay up to date** on rapidly-changing technology. Whether the equipment in question is a copier or a forklift, chances are that the day you buy it, someone somewhere is working on making it obsolete — or at least outdated. Relatively short-term leases — 1 or 2 years in many cases — let you switch up to a newer model when your term is up without a big investment. Some leases even let you upgrade mid-term, which is great for products that use rapidly-evolving technologies.
- Choosing to lease equipment also **shifts the burden of ownership** off of your business and onto the lease provider. If your vehicle or equipment is faulty or breaks down, it's usually up to them to repair or replace it.
- Similarly, many types of leases include **scheduled maintenance and supplies**. This is a huge benefit to small businesses that don't have the technicians or mechanics on staff to handle ongoing maintenance work — and even if you do, it can free them up to handle other duties.

## **Why not lease?**

There are two main budgetary reasons why purchasing may be a better choice for your business. One is the tax implications: large capital expenses can be depreciated against your total income, while not all leases can. If you're looking for expenses to reduce your taxable income, a purchase is a better bet.

Also, leases usually involve a larger total expense. While the expense is spread out over a number of years, it's easy for lease payments to add up to more than the original cost of the item. One way to mitigate this danger is to choose leases that include a nominal buy-out fee at



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the end of the term — if the equipment is still useful, you'll be able to purchase it outright for \$1.

### **So which is it?**

Keeping all of the above pros and cons in mind, you should be able to determine whether a particular piece of equipment should be leased or purchased.

Leasing will often turn out to be the best choice for more substantial, long-lasting purchases in industries that change quickly. On the other hand, it makes more financial sense to purchase smaller items — businesses rarely lease items that cost less than \$5,000. Purchasing also makes sense for items that you know you'll use for the entire lifespan of the product.

Your accountant or financial advisor should be the most important voice you listen to when choosing between a purchase and a lease: your unique financial circumstances will play an important role in the final decision. Keep an open mind and you may find yourself using more leases to acquire the equipment you need.