



## Leasing Capital Equipment Advantages & Disadvantages



### Leasing Advantages

**Net Worth:** A lease is considered an expense, whereas a loan is considered a debt. Leasing can improve the financials and the net worth of a business.

**Tax Savings:** Leasing companies will often work with you to ensure your contract minimizes your tax liabilities. Additionally, in most cases, 100% of your lease payment can be written off.

**Easier Funding:** Leasing has less administrative paperwork and usually quicker response time than banks, who may require extensive business plans and years of credit history.

**Flexible Financing:** Many leases include the cost of installation and maintenance, conserving cash flow for the business. A 'no down payment' option may also be available. Flexible payment options are often offered to match your payments to your income for businesses that operate seasonally.

**Ability to Upgrade:** Some leasing companies offer upgrading programs where equipment can be upgraded, thereby avoiding obsolescence and underperforming assets.

## Leasing Disadvantages

**Cost:** The cost of the equipment is much higher than an outright purchase. For example, a \$5,000 piece of equipment can end up costing \$7,500 over the life of the lease.

**Ownership:** At the end of the lease contract, after years of making payments, the company does not own the equipment.

**Full term lease:** Businesses are obligated to make payments for the entire lease even if you stop using the equipment. Some leases give you the option to cancel the lease if the equipment is no longer necessary, but early termination fees can apply.

## What is the best option?

Some financial experts believe if it's an appreciating asset, something that gains value over time, then you invest cash in it. If it's an asset that loses value over time, you invest somebody else's cash in it.

Other experts advise to calculate the approximate net cost of that asset for both leasing and buying. Factor in tax breaks, resale value, anticipated income and cash flow reduction for both scenarios and decide based on the bottom line.

Either way, to make an informed decision, do your homework, research your options and talk with both leasing experts and banking personnel to determine what will work best for your business and your financial situation.