BANKING TIPS | KEN FERIAN

Lease or buy?

Getting the equipment you need

Whether it's merchandise displays for retail, refrigerators for food service, railcars to move grain, or 3-D printers for manufacturing, every business needs equipment.

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The bank and its affiliates provide consumer, small business, commercial, treasury management, wealth management, brokerage, trust and insurance services, as well as auto dealer, equipment finance, national settlement and capital market services.

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As a business owner, one of the most significant decisions you can make is whether to lease or buy the equipment that keeps your operation running.

Here are several key factors to consider.

Cash Flow

Leasing may improve your cash flow when compared to a term loan or cash option. The primary benefit is that leasing frees up working capital to use in other ways.

When you lease, you can acquire equipment and get it installed with minimal initial expense. Buying, on the other hand, requires a significant outlay of cash. Typically, you can finance only up to 80 percent of the purchase price or hard costs.

Leasing may also allow you to get more expensive equipment than what you could otherwise afford. There is also the opportunity to incorporate within the lease some soft costs such as training, software and installation costs.

Frequent upgrades vs. appreciation

Leasing is likely the better option if you expect to use the equipment for 36 months or less. When the lease is up and the equipment is out of date, you simply lease new, updated equipment. Some equipment can become outdated even before a lease ends. Before you lease, it's a good idea to find out if you can upgrade early.

However, you might consider buying if you plan to use the equipment longer than five years and if the asset will appreciate in value. You'll gain equity in the equipment as you pay down a traditional term loan. Owning equipment outright also gives you the option to customize it, sell it or trade it as your business needs change.

Flexibility

Leases are usually easier and quicker to obtain, and have more flexible terms than traditional term loans for buying equipment. You may be able to close on a lease of up to $500,000 in just a day or so.

You may also be able to bundle multiple pieces of equipment from different vendors into one lease, and get a lower overall cost by doing so.

Some equipment leases can be "off balance sheet," so they don't show up as debt or liabilities on your balance sheet. That means your equipment acquisitions aren't tying up your debt capacity.

Tax implications[1]

When you lease equipment under a fair-market-value lease, you have the option to return the equipment at the end of the lease term with no obligation. For tax purposes, a fair-market-value lease means that you can deduct the full amount of your annual lease payments.

The IRS also allows you to write off certain equipment purchases every year. Buying equipment also may allow you to realize some tax savings through depreciation.

The bottom line

When deciding whether to lease or buy, consider your ongoing needs for ready cash, how frequently you may need to upgrade, the impact on your business' balance sheet, and be sure to check with a tax adviser so that you fully understand the tax implications of leasing and buying. ●

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[1]The information provided does not constitute legal or tax advice. Please consult your attorney or tax advisor.