

IS IT BETTER TO BUY THE EQUIPMENT OR LEASE IT?

No matter what you do in your business, you are going to need equipment. Whether it is just a laptop to run a social media company, or a fleet of heavy equipment to repair roads and bridges, you will need equipment to conduct operations to bring in cash.

The question is how to finance that equipment. It really comes down to whether you want to buy it outright or lease it. Let's compare your options.

- **LEASING**

When you lease a piece of equipment, you are making set payments over a period of time for the right to use someone else's property. There are a few advantages to this option. First, you usually don't have to make a large payment upfront, just the first and last month's payment. Second, financing terms are more flexible, so you won't have to deal with the sometimes-rigorous terms imposed by banks. Third, you are able to deduct the lease payments on your taxes, meaning you do get some tax savings from this option. Lastly, if the equipment becomes obsolete, you can upgrade to a better version, sometimes entering into a new leasing agreement without much hassle.

However, there are a few disadvantages to leasing. In the first place, you do not own the equipment, and may owe a penalty if it is damaged. Second, it can be expensive to lease. If you get a three-year lease on a 10,000 truck, paying \$40 per month per \$1000 leased, it will cost you \$14,400, rather than \$10,000. With a bank loan at 4% interest rate, buying would cost you \$11,273. Lastly, it can be hard to get out of a lease without paying some type of cancellation fee.

- **PURCHASING**

The big advantage to buying a piece of equipment is that you own it, which can be good if it is an item that does not become obsolete, and has a long life. Second, you do get a tax break when you purchase equipment through Section 179 of the tax code, which allows you to deduct up to \$500,000 a year in fixed asset purchases. Lastly, you can take a deduction for the depreciation of equipment over the life of the equipment, with a much bigger deduction being taken in the first years of your ownership of equipment.

There are some disadvantages to purchasing equipment. The biggest may be that you are stuck with the equipment you have purchased. If you are working in an industry that doesn't change much over the years, that is fine. However, given the pace of technological advancement, the equipment you bought today and financed over ten years may be obsolete in three years, leaving you with equipment that may not be able to do the job as someone else's could.

In addition to the possibility of technological obsolescence; you may be forced to make a larger down payment than if you leased the equipment. That could tie up operating capital that could be used to finance other parts of your operation, causing other headaches as you try to run your business.

- **Questions to Help You Decide?**

When facing a dilemma on which option to choose, it is best to ask questions to help you decide. Here are a few you may want to ask yourself:

1. Do you have the funds for a large down payment? If so, you may want to purchase the equipment. If not, you may want to

consider leasing, so you don't tie up operating capital in a piece of equipment.

2. Do you expect the equipment to become obsolete rather quickly? If you do, you may want to consider leasing, since you may be able to trade up to a more technologically advanced model when the time comes. Make sure the company you are leasing from offers this option.
3. What is the possibility the equipment could be damaged? If there is a good chance of this happening, check the lease agreement to see if you will be liable for any damages. If they are very stringent about damages, you may want to reconsider leasing equipment from them.
4. What will you do with the equipment when you finish making payments? If you think you could continue using it, or there is a market for used equipment, you may want to consider buying it. Otherwise, leasing and turning it back into the leasing company may be the route you want to take.

Deciding on whether to buy or lease equipment can be complicated. We advise that you think through the options, and are available to walk you through your options to help you decide a course of action. We enjoy helping our clients build their businesses, and would love to help you with yours.

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