

## BUYING EQUIPMENT, MACHINERY OR OTHER ASSETS? CONSIDER LEASING

“If an asset appreciates, buy it – if an assets depreciates, lease it. – John Paul Getty.”

Many business owners continue to finance their equipment the “old fashioned way” through higher purchase. In many cases this is purely because they are not aware of the potential benefits of leasing their equipment.

These advantages can be seen in four distinct areas:

**INITIAL COST** - leasing offers 100% finance and therefore covers the total cost of the equipment therefore there are generally no deposits required. Most leases will only require the first and last monthly rental in advance of delivery.

**EQUIPMENT OBSOLESCENCE** - A lease can result in a tremendous reduction in the expenses involved in upgrading your equipment. Leasing can help avoid economic obsolescence; which occurs when equipment cannot keep up to the demands of the market or technology. Leasing avoids this by allowing you to upgrade your equipment.

**TAX BENEFIT** - Most leases can be structured so that you can write off 100% of the annual lease payments. The monthly payments are the same as normal monthly expenses. Contrast that with an equipment loan for which you can only write off the interest.

**OFF BALANCE SHEET FINANCING** - Larger businesses often prefer not to own a high value equipment as that equipment would depreciate substantially and whoever owns that equipment is responsible for that write off. Leasing can mean that additional debt is not shown on the Balance Sheet hence a company may be more attractive to potential buyers.

*Many business owners are realising that they do not necessarily need to own their equipment to run a successful business; they only need to have use of it for a specific period.*

### An example:

A profitable cash rich business is looking to purchase new equipment at a cost of £6,500. Is the business to buy or acquire on a 3 year lease; if leasing they will pay a 10% deposit then 36 rentals at £201.35 The business pays tax at 40%.

<b>Cash purchase</b>	<b>£</b>	<b>3 year finance lease</b>	<b>£</b>
Equipment price	<u>6500</u>		<u>6500</u>
Interest lost from withdrawing money from deposit account @ 3% (over 3 yrs)	1024	Interest gained from money in deposit account @ 3% (over 3 yrs)	1024
Writing down allowance on asset	1494	Tax saving on rentals paid	3159
<b>SUMMARY:</b>		<b>SUMMARY:</b>	
Total cost	6500	Total repayments	7899
Minus tax allowances	1494	Minus tax allowances	3159
Plus lost interest	1024	Less gained interest	1024
<b>Total cost</b>	<u><u>6030</u></u>		<u><u>3716</u></u>

*LEASING IS THE WINNER*

by Richard Watts, Director of Finance 4 Business

telephone: 07872 033804; e-mail [richard@finance4business.biz](mailto:richard@finance4business.biz); website: [www.finance4business.biz](http://www.finance4business.biz)