To lease or to buy, that is the question

Today, increasingly sophisticated and expensive electronic equipment is available for the home office. And it often comes with new financing options. Copiers, computers and even phone systems can be purchased outright, financed or leased.

Unfortunately, there is no simple formula to pick the best option for everyone. The right choice depends on your personal financial and tax situation, as well as the specific equipment you are considering. Here are the pros, cons and questions you should ask.

Cash Purchase

Paying cash will almost always result in a lower total cost for the equipment itself. But there are some disadvantages, too. Tying up a large portion of your available cash in one piece of equipment may limit your ability to buy other equipment you need, purchase supplies, or pay yourself a salary! Also, technology changes so rapidly that a valuable asset today may lose much of its resale or trade-in value tomorrow.

Finally, if your equipment is used for business, the purchase cost must be "capitalized" and deducted over a period of years as depreciation expense, according to relatively complicated rules prescribed by the IRS and State laws. The cash is gone up front, while you can only take the business deductions over time.

Financing

Financing your purchase over time does avoid tying up cash up-front. But it still has the disadvantages of owning an asset that may become quickly outmoded. You also must follow the same IRS rules on deducting the cost of the asset over time, which can be longer that the length of your loan payment period.

The Leasing Alternative

Leasing can offer real advantages if the equipment is used in business and has a fairly short "technological" life. Leasing is not the same as ownership (although some contracts provide a purchase option at the end). Instead, you pay for the use of the asset through rental or lease payments.

A big advantage of leasing is that down payments and monthly payments are usually lower than financing a purchase. You will not, however, own the asset at lease end. But, if the equipment will need upgrading or replacement rapidly, leasing can be a real advantage.

If the equipment is used for business, leasing generally also provides the greater tax benefit, because you may deduct lease payments and operating expenses in the year the payments are made.

Finally, leasing can also be more convenient. Many equipment vendors have standard lease contracts which cut down on the red tape and restrictions involved with getting a loan.

On the negative side, there always seems to be some small print that could add up to an inconvenient bill at the end of a lease term, such as charges for wear and tear or excess usage.

Comparing Your Options

To evaluate your choices, you will need to compare the positive and negative "cash flows" for each option.

Start with the "negatives." For each option, list the upfront outlays, including cash price, deposits, loan origination fees, delivery and set up charges, etc. Next, list all of the future expenses for each option, including loan or lease payments, and any separate insurance, maintenance or repair costs. Finally, note any costs due at the end of a lease.

Then list the "positive" cash flows. These include any tax benefits you will receive due to depreciation, interest or lease payment deductions. For a cash or financed purchase, also list the market value (if any) of the asset you will own at the end. The net cash flow for each option consists of its negatives, offset by its positives.

The Last Step

Since the various costs of leasing or purchasing an asset are generally spread over different periods of time, a meaningful evaluation requires a comparison of the "present value" of each option's cash flows. Basically, what are all the different costs and benefits worth in "today's" dollars?

Luckily, very straightforward computer programs for this computation abound at computer and office supply stores. Just plug in your items, and it does the rest! Programs can also be downloaded from the Internet.

For those who are not adept at spreadsheets or downloading, the assistance of an accountant may be helpful at this point. Your CPA or other business consultant is also in an excellent position to help with the evaluation because they understand all of the financial and tax concepts. They can also be objective since they have no financial interest in the decision, and are familiar with your specific cash flow and tax situation.

In the last analysis, the decision of whether to lease or buy an asset will be based on a number of economic and practical considerations, as well as individual preferences. Understanding the issues will help, but don't neglect to read the small print!

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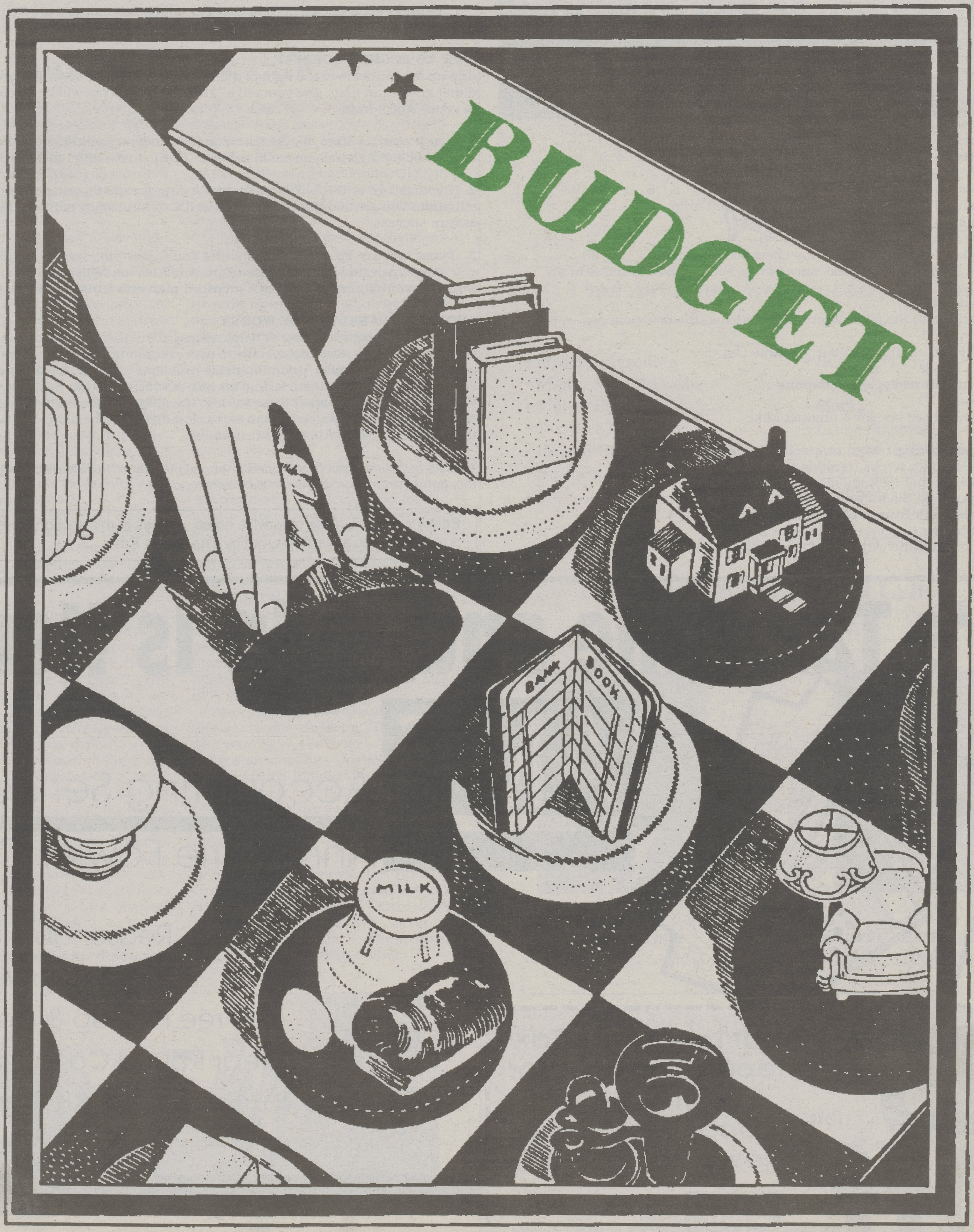

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