LEASE 1

FINANCIAL

5 Advantages of Equipment Leasing

Choosing the right financing for your business needs involves more than simple dollar comparisons. Equipment leasing is often overlooked because of misunderstanding what it is and how it works.

Equipment lease financing has significant advantages over other financing sources. Here are five:

1. Easier Budgeting & Cash Flow

Equipment leasing is highly beneficial for cash flow purposes for 2 reasons:

1. It can offer **flexible terms**, such as **skip payments**, or a lease term structured around your business's **seasonal** cash flow.
2. Monthly lease payments allow you to **pay for your equipment in smaller, predictable chunks**, leaving you some margin in your monthly cash flow, rather than buying your new equipment in one lump sum. Knowing your monthly lease payment amount ahead of time makes budgeting and planning for your business needs much easier!

Opportunities Requiring New Equipment

Don’t miss an opportunity to grow your business or capture a new client because you can’t afford the equipment you need.

The ability to lease new equipment – rather than having to pinch pennies and save up for a new piece of equipment for months or years – makes new opportunity possible!

2. Tax Advantages*

There are 2 main options when you purchase new equipment – buy or lease. The impact on your taxes might be the deciding factor.

Buying Equipment = Depreciation

Your first option is to pay for your new equipment in full at the time of the purchase. It makes sense because you have the cash, so you can get the equipment and carry on with doing business.

Equipment depreciates in value each year. The government determines the depreciation rates. By the time you’ve collected all of that depreciation value from the government with your yearly tax deductions, your piece of equipment could be obsolete and you’ll be using it as a doorstop!

Leasing Equipment = Tax Deductible

Your second option is equipment lease financing. Lease payments can be treated as an expense rather than depreciating your equipment as a capital cost. Lease payments are usually tax deductible against your income each year of your lease term.

In this way, **both your *money* and your *equipment* are working for you** at the same time!

Points to keep in mind as leasing affects your taxes are:

An asset that depreciates in value can be written off more quickly when it’s leased.
Cash is king, so get your money back into your company as quickly as possible.

Leases have no up-front costs of PST or GST. Taxes are paid on the individual monthly payments.

3. Preservation of Cash & Credit Lines

It’s unsettling to see your cash balance quickly plummet! Leasing is more desirable than spending a large lump sum, taking a big chunk out of your line of credit or bank account.

Grow Without Using Up Your Line Of Credit

Establishing a line of credit with a bank is not easy, and once you have it, you should preserve it. Your lines of credit are valuable resources to hold on to for inventory, emergencies, or other uses.

In most cases, an equipment lease covers all costs associated with your new equipment, including shipping, delivery, warranties, accessories, and any other necessary soft costs. By leasing your equipment, you’re able to budget and work with a consistent monthly lease payment over the course of your lease term. This way, you’re able to grow and still keep your line of credit.

Keep Your Cash In The Bank

Your hard-earned cash is another useful resource to have on hand. It can be invested and earning more money for you. **You want your money to work for you, not just you working for your money!**

Banks don’t usually care about what equipment you own. They’re more interested in you having enough cash on hand to pay your bills.

As much as we love equipment, no matter how high-tech, it’s still a *depreciating* asset. If you find yourself in a cash-heavy position, it might be better to look at spending your cash on something that *appreciates*. (Buy the building instead!)

Get the best of both worlds! Use your *cash* to buy **appreciating** assets and use *lease financing* for **depreciating** assets.

4. Increased Buying Power

It can be discouraging when your business *needs* exceed your *cash or credit limit*.

When your company requires a $60,000 machine, but you're only able to obtain a $40,000 piece with your available cash or credit, you feel you must settle for less than what's best for the success of your business.

Equipment leasing enables you to increase your buying power which allows you to finance the equipment your company needs. You can get the equipment your business requires by making affordable monthly lease payments, giving you the ability to meet demand and promote growth. By breaking down your costs over a term lease, you can afford to purchase the equipment that will grow your business by increasing your production, thereby increasing your profit.

5. Increased Production & Profit

When you finance new equipment through a lease that allows your business to **work more efficiently** or **at a greater volume *immediately***, you're able to **serve more customers**. This increased production generates your cash flow and has your new equipment working for you, producing more as you make your monthly lease payments.

You could say **your equipment is "earning its keep".**

Case Study: JAC Construction

The Cost of Work

Jeff started his own company (JAC Construction) and is framing houses for a local builder. He had more work than he could keep up with, framing 2 houses a month.

JAC Construction was renting a crane for each job in order to get the work done. For each house, Jeff had to rent the crane twice at a cost of $500 per use. At 2 houses per month, that's nearly a $2,000 per month expense.

When lumber is delivered to their building site, it's dropped off and Jeff's crew of 3 must manually move the lumber to where it needs to be. So Jeff was paying labor costs for moving that lumber.

Equipment Leasing Saves $5,000 A Month & Makes More Money

Because JAC Construction was still a fairly young company, preserving cash flow and lines of credit was very important and vital to the success of this business. With equipment lease financing, Jeff was able to get the crane he needed and put it to work immediately.

Purchasing a crane resulted in huge benefits to JAC Construction:

- saves labor costs each month (approximately $3,000)
- saves the cost of the crane rental (approximately $2,000)
- the crew works faster and more efficiently, moving lumber when and where they need to
- no more waiting for availability or delivery of a rental crane
- increased speed results in increased production
- increased production results in increased revenue

In addition to increased profit, Jeff's employees are happy they don't have to move truckloads of lumber by hand! Everybody wins!