
Making a Living, Learning, and Leasing

Is it for you?

By: Aaron Dyer



Having trouble financing the purchase of equipment necessary to grow your company? Before you start tearing your hair out about going through the traditional loan process, consider leasing. It might be the solution you and your company have been seeking, but didn't know existed. Often, you won't have to go far to find a leasing company to work with, but another option can be found at some banks or other regular vendors.

Certain manufacturers have their own full-time leasing agents that you can discuss your options with. These agents will inform you on the types of leasing or credit arrangements that can be made with that particular manufacturer, or subsidiary company. This type of transaction falls into the financing category, but it is really just another form of gaining something that will help your business in the same way monetary funds would benefit you.

Before you start listing your equipment needs, alphabetizing, and generally considering this a free shopping trip, let me give you the full story. There are two sides to every coin, and this is no different in the financing world. You will

ultimately have to weight the pros and cons to decide what would be the best for you and your business.

Some of the benefits of leasing can be particularly attractive, and perhaps the largest of these is the fact that it makes more funds available to you for other financial obligations. Typically, leases require only a small down payment, or if you're lucky, none at all. This availability of funds allows you to further expand another sector of your company, or it can give you the needed finances to pay off previous debts.

In terms of debts, leasing leaves less of a debt on your financial statements as you are only renting these assets for a set time period. The leasing transaction will not affect your balances sheets in any way, and only expense-related financial statements will show a record of lease transaction amounts. This will aid you in keeping your credit in the clear, which can lead to you having an easier time of procuring a traditional loan in the future.

Leasing also gives a great deal of options when you want to upgrade or change equipment. This is another reason it can be particularly attractive to certain businesses such as those in a rapidly changing technology field. The leasing company may even have an upgrade clause that allows you the option to upgrade at a certain point. This upgrade allowance would add insurance to you being able to provide the best service to your clients, as you would be able to constantly assess and maximize the quality of your equipment.

Finally, there are the tax-deductible benefits that go hand in hand with

leasing. Leasing costs are deductible expenses that will aid in reducing your amount of taxable income. The difference between purchasing and leasing the equipment could greatly impact your taxes. For this reason, I advise you to sit down and do some calculations to see if it would be the best decision in the short and long-term for your particular venture.

Now, as with everything there can and will be downsides to this particular type of business agreement. For example, certain loopholes can exist in the leasing agreement that you must be aware of before signing on the dotted line. Insurance costs and repair costs should be factored into the entire equation in order to ensure that leasing would be a sound business option for you. In addition, the overall cost of the equipment during the time period you will be leasing should be contemplated beforehand. One of the greatest benefits to leasing can be the money saving aspects, but if you are going to ultimately end up paying more than you would by purchasing such equipment, the benefit is lost. In some cases, this can't be avoided, and the cost will be higher for the leasing lifetime, but the payment schedule might fit into your own financial timeline better. Weigh your options and again decide what best suits your business needs.

The fact that you don't technically own the leased equipment can play against you in the equity game. At the end of the lease, you won't have any tangible assets in exchange for the payments you made. You can counteract this particular negative by negotiating an agreement wherein a portion of your payments will be credited towards a purchase price purchasing the equipment. This will then create equity in your leased property.

Leasing agreements are also difficult and financially taxing to get out of, as they are binding. In the event that you cease using the equipment, you will still be under contract to make your regular payments. If you choose to terminate early, a large termination fee will likely be tacked on to your expense report. In most cases, the fee can make such an action not financially worth it.

My advice would be to "Take your time". Look over the options, create your own scenarios tailored to your business and decide if leasing is for you. In the short-term, it might be just the solution you are looking for. Remember, you can negotiate the length of the agreement, so if you could utilize the funds it would free up, it might be in your best interests to take advantage of such an arrangement.

About the Author:

Aaron Dyer is President of Dyer Consulting Group, a small business consulting firm that advises business owners on ways to grow their revenues and increase profitability through better strategic planning and financial management. For more information, and also to sign up for Aaron's future articles, visit www.DyerConsultingGroup.com

