Should You Lease or Purchase Equipment?
Evaluate carefully to choose the option that best fits the company’s needs

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Is it time to replace that old machine, or maybe add another machine for the increased capacity? Imagine that the machine you want will cost $150,000. Should you buy it outright? Should you borrow the money from a bank? Should you lease it with a buyout at the end?

**Evaluate the options: purchase, loan, lease**
Which option? That is a very important question when trying to make your company’s dollars work as efficiently as possible. On one hand, purchasing the equipment outright is cheaper in the long run because of the lack of interest expense. On the other hand, what else could that $150,000 be used for? If you reinvest it in the business, would that yield a higher return than the six percent interest expense paid on a note?

If you obtain a bank loan, you will likely make a 20 percent down payment. That is still $30,000 ($150,000 x 20 percent) that could be used elsewhere in the business to fund additional growth. Could you use that money for something else that would be more beneficial to the business’ operations?

Another alternative is a lease with a buyout at the end. This lease option minimizes the amount of cash to put down upfront because leasing can provide up to 100 percent financing. Yeo & Yeo’s client, The Wirt-Rivette Group, offers equipment leasing and can also help you evaluate options. Of the two options, borrowing almost 100 percent or putting down 20 percent and borrowing only 80 percent of the purchase price, which provides the better return on investment?

Following are the key variables to consider:
- the type of equipment under consideration
- the term of any potential loan
- the marginal tax rate
- what depreciation method is available for use
- most importantly, what the return on investment is for funds otherwise invested in the operations of the business.

**A practical example**
The following is an example using a $150,000 purchase with bank financing at 6 percent over five years, a lease rate at 4 percent with a 10 percent buyout at the end of the five years, a marginal tax rate of 35.9 percent, and an estimated return on investment of 12 percent for funds not locked into a down payment on the equipment purchase.

Using the variables described above, if your accountant is able to depreciate the purchase over five years, then over that same time period you would spend over $3,000 more if you borrowed the money from a bank, than if you leased the item with the buyout at the end. If the tax benefits of the depreciation are limited to only three years, then the bank loan is a slightly better savings.

**Ask for assistance**
Your Yeo & Yeo CPA is ready to assist you in reviewing equipment finance options and how to assess optimum ways to deploy your capital. Call your CPA for further information.

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Clarence is the president of The Wirt-Rivette Group. The company provides equipment financing, property financing, property management and consulting services for clients throughout Michigan and nationally. Clarence’s strengths include executive consulting and global business. He has designed global strategies, and foreign market entry and growth plans, as well as participated in various international development joint venture programs. Clarence has designed and led customized training, executive coaching and team development programs for cross-functional global teams. His professional experience and military career have taken him to over 38 nations. www.wirtrivettegroup.com

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