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Evaluating Equipment Leases

Commercial Leasing Expert Explains What Kinds of Leases Available to Business Owners and What to Consider Before Signing on the Dotted Line

LOS ANGELES (June 12, 2008) – According to the Equipment Leasing Association, 80 percent of U.S. companies lease some or all of their equipment. And while Crystal Riley, president of Lease with Crystal, agrees that leasing is the best way to go, she cautions those business owners who wish to lease equipment know what kinds of leases are at their disposal before talking to a leasing specialist.

"So many business owners determine that leasing equipment makes economic sense, but they expect the leasing agent to do all that work for them," says Riley. "And while an agent will and can make recommendations for you, it is important to do the research to determine what kinds of leases are available and how they will work to help you reach your ultimate business goals."

There are three main types of leases that Riley recommends for her clients the first of which is an operating lease. When a lease is classified as an operating lease, the lease expenses are treated as operating expense and the operating lease does not show up as part of the capital of the firm. In addition, a capital lease allows for the present value of the lease expenses to be treated as debt, and interest is imputed on this amount and shown as part of the income statement.

According to Riley, the operating lease is preferred by many of her small to mid-sized business clients. "Operating leases have many advantages," says Riley. "Operating leases break down the way that the leasing company retains ownership of the equipment and the biggest advantage for business owners – small, big and in between—is that the monthly payments for the business owner are considered a monthly operating expense and as such are fully tax deductible." For business owners, being able to classify the monthly payment as an operating expense and write it off, it helps to offset some balance sheet debt and keep cash flows up.

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Another type of lease that Riley recommends is the capital lease. And while it is a different type of loan, it bears some similarities to traditional loans. With an operating lease, the owner transfers the right to use the property to the lessee. At the end of the lease period, the lessee returns the property to the owner. Since the lessee does not assume the risk of ownership, the lease expense is treated as an operating expense in the income statement and the lease does not affect the balance sheet. In a capital lease, the lessee assumes some of the risks of ownership and enjoys some of the benefits. Consequently, the lease, when signed, is recognized both as an asset and as a liability (for the lease payments) on the balance sheet. The firm gets to claim depreciation each year on the asset and also deducts the interest expense component of the lease payment each year. In general, capital leases recognize expenses sooner than equivalent operating leases.

"We would make the argument that in an operating lease, the lease payments are just as much a commitment as lease expenses in a capital lease or interest payments on debt," says Riley. "The fact that the lessee may not take ownership of the asset at the end of the lease period, which seems to be the crux on which the operating/capital lease choice is made, should not be a significant factor in whether the commitments are treated as the equivalent of debt."

Another form of very popular lease according to Riley is the buyout option lease. Under this lease type, there are several kinds of buyout options. The first is the FMV (or Fair Market Value) option which allows a business owner to easily purchase the equipment at the end of the lease term at a predetermined fair market value. "Buying out the lease at the end of the terms at fair market value could save hundreds of dollars," says Riley. "Conversely, the $1 buy-out option allows you to buy the equipment at the end of a lease term for $1. This option is usually available for equipment that has a high obsolescence level like computers."

According to Riley, there are lots of factors to consider when choosing a particular type of lease. "The most important factor is to know about all of the options and let your leasing agent or trusted business associate help you through the decision-making process."

Crystal Riley has in-depth management experience and comprehensive understanding of the business world. Offering a unique skill set that is necessary to effectively put deals together, having served as the special director for music mogul Jimmy Iovine for several years, Crystal rose through the ranks at Interscope Geffen A & M to become a master of campaign development and overall project management. As an executive in the music industry, she committed herself twenty-four hours a day to ensure successful strategic partnerships with Apple, Napster, Yahoo, Starbucks, Microsoft and Facebook. Leaving the industry, Crystal followed in the footsteps of her family, which includes generations upon generations of successful entrepreneurs. Lease With Crystal opened its doors in 2008, with the backing of Lease One - an original inventor in the Equipment Leasing world, with 20 years of experience. Crystal lives in Los Angeles with her family. More information about Lease with Crystal can be found by visiting www.leasewithcrystal.com.

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