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To Buy or To Lease Equipment – That is the Question for Small Business Owners

Commercial Leasing Expert Reveals the Four Questions Every Business Owner Should Ask Before Buying or Leasing Office Equipment

LOS ANGELES (April 29, 2008) – According the Small Business Administration, more than 600,000 small businesses are started each year in the United States. And David Birch, former head of a research firm specializing in small business data, found that 85 percent of businesses fail in their first year. While those new businesses range from home-based, online and traditional brick and mortar establishments, most of these businesses have one thing in common – they need equipment to be able to operate successfully and avoid becoming one of Birch's statistics. But because there are costs, often large ones, associated with starting a new business, many business owners are faced with the question of whether to buy or lease equipment.

Crystal Riley, president of Lease with Crystal believes that each method has its pros and cons. "There are several key considerations business owners need to factor in when deciding how to procure new equipment for their businesses," says Riley. "These considerations go far beyond which one is cheaper in the short term. Rather, tax breaks, resale value, and the net cost of the asset all need to be considered carefully."

How Much Will Be Needed for Upfront Costs?

According to Riley, one of the major benefits to leasing equipment is that the upfront costs are far less than if the equipment was purchased. There are very few instances where a lease requires a down payment, thus allowing a business owner to purchased needed equipment without significantly affecting cash flow. "Leasing can be especially helpful for business owners who have less-than-stellar credit or those who need to negotiate lower payments over a longer period of time," says Riley. In addition, when business owners are leasing equipment under $100,000 they rarely have to provide financial statements, tax returns and business plans.

Some business owners who chose to buy their equipment have the money to purchase the equipment outright, but more realistically, a business owner looking to purchase equipment will have to finance a portion of the purchase. While financing the equipment will lead to ultimate ownership, most banks require a 20 percent down payment, which affects cash flow and may tie up lines of credit. “Some lenders may also place restrictions on your future financial operations to ensure that the loan is repaid,” says Riley. “This alone can make things difficult for some small business owners who may need to access more loans to keep his or her business afloat.”

How Will Buying or Leasing Equipment Affect Taxes?

Both leasing and owning property provide tax advantages to small business owners. Generally speaking, lease payments can be deducted as a business expense on a tax return. As such, the net cost of the lease is reduced, providing an overall savings. Many business owners find that after factoring in these deductions, they often save money by purchasing leased equipment. Conversely, Section 179 of the Internal Revenue Code allows for the deduction of some newly purchased assets in the first year. “In Tax Year 2007, equipment costs up to $112,000 could be deducted,” says Riley. “Some equipment is not eligible under Section 179, but tax savings can be realized on almost any piece of business equipment through the business depreciation deduction.”

What Will the Equipment Be Worth?

“One of the major disadvantages of leasing equipment is that because you are not purchasing it, it cannot be considered an asset and cannot be sold,” says Riley. “Conversely, after you purchase equipment, it’s yours. This is especially advantageous when dealing with a piece of equipment that has a long, useful – and I emphasize useful – life and is not in danger of becoming technologically obsolete in a short period of time.” According to Riley, leasing is a way to address equipment that may become obsolete in a short period of time is to lease it. A lease passes the burden of obsolescence onto the lessor rather than the purchaser. “When leased equipment becomes outdated, you can give it back to the owner at the expiration of the lease and get new, current, higher end equipment,” says Riley.

Riley warns that another major consideration is how much a piece of equipment will depreciate. “A computer system depreciates far faster than office furniture,” says Riley. “So, you have to pay special attention to the equipment and make sure that what you spend for it today will not be markedly different than what you can sell it for tomorrow. Certainly, some depreciation will occur simply through normal aging and wear and tear, but it’s always something to consider.”

How Long Will the Equipment Be Used?

Before leasing equipment, Riley warns that you need to be sure you are really going to use the equipment. "A lease is a contract that lasts over a defined period of time," explains Riley. "As such, if you lease a piece of equipment for three years, and find that after two years, you are no longer using it, you still have to pay that last year of the lease. That is not to say that some leases don't give you the option to cancel the lease, because some do. But they will levy a huge termination fee."

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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