



Capital Source Solutions

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Should we buy or lease that business asset?

It isn't always obvious if you should lease or purchase new business assets.

Much depends on what is being purchased, be it a piece of industrial equipment or new laptops, and how much capital is available for the purchase.

The tax situation of the purchaser and the pace of technology play roles too.

There are several advantages to leasing versus buying, but the most significant is the amount of cash it saves the lessee in the near term.

There are disadvantages to leasing as well, and therein lies the confusion over when to lease. Depending on your financial circumstances, the advantages to leasing may weigh more or less than the disadvantages.

6 Principal Reasons Leasing May Be Right For You

1. 100% financing. Instead of needing as much as 20-40% of cash to put towards the purchase of assets, leases usually require **no money down** at closing, and oftentimes will include money for installation.

2. Lower interest rate and monthly payments with a lease versus a loan.

Because of the residual value of the asset the lessor builds into the transaction, as well as the depreciation the lessor captures with a lease, it is usually lower monthly payments than a conventional bank loan would require.



3. Limit exposure to asset obsolescence

If the technology surrounding the asset under consideration is evolving rapidly, leasing also helps the business protect against obsolescence, and from investing too much into a rapidly depreciating asset.

4. Leasing your will leave more money in the business to pursue other objectives, including marketing and production.

5. Keeps debt off of company books

If partners, banks, suppliers, franchisors or any other party to the business restrict company indebtedness, **a lease helps debt off of the company's balance sheet.**

6. You may walk away at the end of the lease, purchase the equipment at the residual value, **or you have the option to** make any changes or updates to the business capital stock through new leases.

So what is the downside to leasing versus buying?

Two things really, either of which could be reason enough to ignore all of the positives to leasing.

1. If your business has ample cash, and earns enough income to take full advantage of expensing a purchased asset, then leasing may not be attractive.

2. If the asset retains its value and/or utility over many years, you may miss out on its value beyond the terms of the lease. In a lease you may lose income from the continued utility of the asset beyond the lease period, or from its value when sold.

Please contact us if you have questions with your own lease versus buy situation or any other questions you may have.



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