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Equipment leasing: A viable solution for Colorado businesses

Businesses of all types and sizes across Colorado share a common New Year's Resolution this year — improving their bottom lines in 2006. For those considering how to fit new equipment into the annual budget, equipment leasing may be the answer.

The Equipment Leasing Association (ELA) estimates that eight out of 10 U.S. companies lease at least some equipment, but many don't realize that there are benefits to leasing almost any type of equipment — from computers, software and storage to commercial aircraft and printing presses.

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Businesses rely on equipment every day to operate and grow, but the value of equipment comes from using it, not owning it. Leasing is a popular way to maximize purchasing power largely because it is a cost-effective way to obtain the newest equipment without a large outlay of cash up front.

By leasing, a company can transfer the uncertainties and risks of equipment ownership to the leasing company, and concentrate on using that equipment as a productive part of their business. Leasing also helps shield companies from the effect of equipment obsolescence, a real issue for all those using any type of technology.

THE BENEFITS ADD UP

Some other benefits of leasing equipment include:

- **Tax treatment** — The IRS does not consider certain leases to be a purchase but rather a tax-deductible overhead expense. Therefore, companies maybe able to deduct the lease payments from corporate income.
- **100 percent financing** — Leasing requires very little money down; perhaps only the first and last month's payment are due at the time of the lease. Since an equipment lease often does not require a down payment, it is equivalent to 100 percent financing.
- **Immediate write-off of the dollars spent** — With leasing, payments can be treated as expenses on a company income statement, so equipment does not have to be depreciated over the useful life of the equipment.
- **Flexibility** — As businesses grow and their needs change, leasing provides more opportunities to add or upgrade equipment during the lease term.
- **Asset management** — A lease provides the use of equipment for specific periods of time at fixed payments. The leasing company assumes and manages the obsolescence risk of equipment ownership. At the end of the lease, the leasing company is responsible for the disposition of the asset.
- **Upgraded technology** — Equipment that could depreciate quickly should be leased to limit an organizations risk of investing in obsolete equipment.
- **Speed** — Leasing can allow you to respond quickly to new opportunities with minimal documentation and red tape. Many leasing companies can approve applications within an hour.
- **Improved cash forecasting** — When businesses lease, they can accurately forecast the cash requirements for equipment since they know the amount and number of lease payments required.
- **Flexible end of term options** — Put simply, there are three flexible options at the end of a term: return the equipment, purchase the equipment or renew the lease.

ONE SIZE DOES NOT FIT ALL

Another benefit of leasing is that there are a variety of leasing products available to meet the needs of all types and sizes of businesses.

The capital lease, also known as a finance lease, offers the widest flexibility of term length, which can help keep payments low. Capital leases also provide a variety of tax benefits, including the ability to write off depreciation and interest expense for the acquired equipment.

At the end of a leasing period with a capital lease, there are a variety of options for the next steps. This includes purchasing the equipment at the current fair market value, renewing the lease at a fixed price or a $1 purchase option.

With an operating lease, or an "off balance sheet lease," terms are typically shorter than capital leases and the equipment acts more like a rental. This means the payment does not appear on the company balance sheet. When the term expires, companies may return the equipment, or purchase it at fair market value.

There are also leases available that can be tailored to fit month-to-month or year-to-year cash flow needs. Custom arrangements can be designed to address requirements such as cash flow, budget, transaction structure, cyclical fluctuations and more. Some leases even allow lessees to miss one or more payments without penalty.

QUESTIONS TO ASK

Like any business decision, it is important to do your research before deciding to lease and selecting a leasing company. The ELA recommends businesses ask the following 10 questions before signing a lease:

1. How am I planning to use this equipment?
2. Does the leasing representative understand my business and how this transaction helps me to do business?
3. What is the total lease payment, and are there any other costs that I could incur before the lease ends?
4. What happens if I want to change this lease or end the lease early?
5. How am I responsible if the equipment is damaged or destroyed?
6. What are my obligations for the equipment (such as insurance, taxes and maintenance) during the lease?
7. Can I upgrade the equipment or add equipment under this lease?
8. What are my options at the end of the lease?
9. What are the procedures I must follow if I choose to return the equipment?
10. Are there any extra costs at the end of the lease?

To aid companies in the search for a leasing company, the ELA has developed a tool called Choose Leasing, available at www.ChooseLeasing.org. Choose Leasing answers commonly asked questions about leasing, discusses important things to note before signing a contract and offers a search engine for finding nearby or specialty lessors.

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