

Equipment Leasing: The Road to Managing Equipment Costs

The cost of doing business in the transportation construction industry is increasing as a result of rising costs of necessities including insurance, equipment and fuel. Many transportation builders are seeing state and federal revenues continuing to shrink as budget dollars get re-allocated to pressing economic and national defense issues. As a result, construction and engineering companies are left with uncertainties about funding for their next project.

Our country's demand for continued development of our transportation infrastructure seems limitless. But with fewer dollars being allocated for improvements, builders are hard-pressed to make investments in capital equipment which they need to remain competitive.

Equipment leasing may be the answer. For many, leasing is becoming a popular way to maximize the equipment procurement process, largely because it's a cost-effective way to obtain the newest equipment without a large outlay of cash.

A Solution: Equipment Leasing

Equipment leasing offers a valuable financing option that allows builders to maximize their purchasing power and obtain necessary equipment—everything from cranes and mixers to tunnel-boring machines and rail equipment—without taking a hit to their bottom line.

Transportation construction organizations rely on equipment every day to operate and grow, but the value of equipment comes from using it, not owning it. By leasing, a company may transfer the risks and uncertainties of ownership to the “lessor” (leasing company) and concentrate on using that equipment as a productive part of business.

For jobs that require specialty equipment, builders can even schedule the lease term to coincide with the end of a project. At the end of the lease, the equipment is returned to the lessor, thereby eliminating the need for construction companies to maintain infrequently used specialty items.

The Benefits Add Up

Some of the other benefits of leasing transportation construction equipment include:

- *Tax treatment*—The IRS does not consider certain leases to be a purchase, but rather a tax-deductible overhead expense. Therefore, companies can deduct the lease payments from corporate income.
- *100 percent financing*—Since a 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 are treated as expenses on a company income statement, so equipment does not have to be depreciated over an extended term.
- *Flexibility*—As businesses grow and needs change, they can add or upgrade equipment at any point 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 risk of equipment ownership. At the end of the lease, the lessor is responsible for the disposition of the asset.
- *Upgraded technology*—Technological product enhancements make equipment more efficient and easier to use, and competitive companies have to stay on the cutting edge. Equipment that could depreciate quickly should be leased to limit an organization's risk of getting caught with obsolete equipment. Plus, leases make it easier to upgrade or add equipment to meet ever-changing needs.
- *Speed*—Leasing can allow you to respond quickly to new opportunities with minimal documentation and red tape. Many leasing companies approve applications within one or two days.
- *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, renew or purchase.
- *Tax benefits*—Lessors can pass the tax benefits of ownership on to the businesses in the form of lower monthly payments.

Finding the Perfect Fit

Another important benefit of leasing is that there are a variety of leasing products—the two most common being the capital lease and the operating lease.

The capital lease, also known as a finance lease, offers the widest flexibility of term length, which helps 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 next steps. This includes purchasing the equipment at the current fair market value (FMV), 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 FMV.

Taking the Next Step

After identifying an interest in leasing, the next step is choosing a lessor. During initial meetings, companies should look for a partner that understands the objectives, is experienced with the equipment needed and is committed to the relationship over the long term. Another consideration is the financial strength of the lessor, as the lessor takes the risk of owning the equipment under consideration.

To aid companies in the search for a lessor, the Equipment Leasing Association—a non-profit association representing companies involved in the equipment leasing/finance industry—has developed a tool called “Lease Assistant,” available at www.LeaseAssistant.org. “Lease Assistant” 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. TB

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