

## Leasing vs buying

# *Capital Ideas:* Equipment Financing For Wide-Format Printers

By Allen Snelling

These days, output providers can find a way to print on almost anything. From billboards to busses, aerial advertising to awnings, one thing remains the same for all wide-format imaging professionals: the desire for bigger, faster, better printing equipment.

As costs, speed to market and pricing pressures continue to climb, high end products are making it easier to deliver more, faster. But even this creates challenges.

The printing industry is evolving so rapidly and technological advances occurring so quickly that it's difficult to stay on the cutting edge. It may seem as though the day you purchase a new piece of equipment, something better hits the market.

Leasing has become a popular way to maximize the procurement of high end printing equipment largely because it's a cost-effective way to maintain the newest technology without a large outlay of cash, and because it protects companies from being stuck with obsolete equipment.

There are many reasons to invest in the latest technology, but ultimately the value of the equipment comes from using it, not owning it. When equipment is leased, printers can transfer the risks and uncertainties of ownership to the finance company and concentrate on using the technology as a productive part of business.

### The Benefits Add Up

Some of the other recognized benefits of leasing equipment include:

**Reduced Tax Burden**—The IRS does not consider certain leases to be a purchase, but rather a tax-deductible overhead expense. Therefore, companies may be 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.

**Immediate Write-off of the Dollars Spent**—Depending on the type of lease, the payments may 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 for printers 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. With residual-based lease structures, 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 organization's 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 Flow**—Many lease structures can result in a lower monthly payment when compared to a standard loan. In addition, some leasing companies offer seasonally adjusted payments to match a company's needs.

**Flexible End of Term Options**—Depending on how the lease is structured, the printer may be able to

return the equipment, purchase the equipment or renew the lease at the end of the lease term—or the equipment ownership may be automatically transferred to the printer.

### With Leases, One Size Does Not Fit All

Another important benefit of leasing is that there are a variety of leasing products available, with 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 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. The lessee typically owns the equipment at the end of a capital lease or has a bargain purchase option (usually 10 percent or less).

An operating lease, or an “off balance sheet lease,” acts more like a rental. This means the payment does not appear on the company balance sheet. When the term expires, companies may continue to lease the equipment on a month to month basis or short fixed term, return the equipment, or purchase it at FMV. Because the lessor takes residual position in the equipment and is also considered the owner for tax purposes, the monthly lease payments are usually much lower than a capital lease.

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 or purchase the equipment at a favorable price at a predetermined point during the lease term.

### Questions to Ask

As with any business decision, it is wise to gather as much information as possible before making a decision. Following is a list of questions to help guide people through the equipment leasing process. Also, purchasing professionals should always consult with a tax advisor before making a decision.

#### Before

- 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. Do I want this asset to be on balance sheet and do I wish to diversify my lending facilities.*

#### During

- 4. What is the total lease payment and are there any other costs that I could incur before the lease ends?*
- 5. What happens if I want to change this lease or end the lease early?*
- 6. How am I responsible if the equipment is damaged or destroyed?*
- 7. What are my obligations for the equipment (such as insurance, taxes and maintenance) during the lease?*
- 8. Can I upgrade the technology or add equipment under this lease?*

#### After

- 9. What are my options at the end of the lease?*
- 10. What are the procedures I must follow if I choose to return the equipment?*
- 11. Are there any extra costs at the end of the lease?*

### Taking the Next Step

After identifying an interest in leasing, the next step is choosing a leasing company. Many equipment vendors and resellers partner with a leasing company, making a lease option an automatic part of the sales process.

There are several resources available to help companies learn more about leasing or find a finance partner. For example, the Equipment Leasing and Finance Association (EFLA) offers a search engine on its website to help businesses in the search for a nearby or specialty leasing company. For more information, visit [www.chooseleasing.org/LessorDirectory/](http://www.chooseleasing.org/LessorDirectory/).

During initial meetings, be sure to 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 leasing company, as they take the risk of owning the equipment under consideration.

Always consult with your accountants and tax advisor for review and considerations.

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