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Should I buy or lease assets for my business?

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Question:

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Answer:

This decision depends on several factors, such as the cost of the asset, your cash and/or credit position, and the asset's value to you now and in the future.

In the short term, leasing an asset allows you to try out a product without making a lengthy commitment. If you find the item does not meet your needs, you are not stuck with it as you might be if you had bought it and had difficulty reselling it. For items that quickly become technologically obsolete (e.g., computers and communications equipment), successive leasing allows you the flexibility of upgrading. In most cases, a lessor (particularly of office equipment) will also provide maintenance support on the items you lease.

Buying an asset provides you with equity. But it may also require a substantial cash outlay for an outright purchase or a down payment. Certainly, obtaining credit for a large purchase (e.g., an office building) may be difficult, and credit for leases is easier to obtain.

In contrast, you will likely spend more dollars by leasing over the life of the asset than you would with a purchase, even if you consider the interest payments on a loan. This is particularly true with real estate. The interest you pay on loans to acquire real property may be tax deductible as a business expense, as may maintenance costs and depreciation on the asset. Also, even though most lease payments are fully deductible as business expenses for tax purposes, your purchase of the asset may provide greater tax relief in the long term.

As a general rule of thumb, buy the asset if it will increase in value over time and you plan to keep it more than five years. If the asset will decrease in value, lease it.

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