

LEASE VS. BUY ANALYSIS

The purpose of this analysis is to demonstrate some of the financial advantages of leasing, even in the absence of tax advantages.

LET'S ASSUME:

Sale Price of Equipment	\$65,000.00
Term of Lease in Months	36
Number of Advance Payments	0
Purchase Option	\$1 Buyout
Rate Factor	.03201
Monthly Payment	$\$65,000.00 \times .03201 = \$2,080.65/\text{month}$
Total Outlay Over Term of Lease	\$74,903.40
Interest Paid	\$9,903.40 or \$3,301.13 per year

Dunn & Bradstreet says that a typical company must earn an average of 12 percent on money it invests itself. In other words, if a company were to spend one million on R&D, they should earn an average of 12 percent on their investment.

GIVEN THAT INFORMATION, WHAT WOULD THE CASH OUTLAY BE WORTH IN THREE YEARS?:

Compounded Value of Sale Price
 $\$65,000.00$ earning 12% per year for 3 years is worth $\$91,320.32$

The Math Is
 $\$65,000.00 \times 1.12 \times 1.12 \times 1.12 = \$91,320.32$

The Compounded Value Minus the Stream of Payments
 $\$91,320.32 - \$74,903.40 = \$16,416.92$ in favor of leasing

Here are some additional notes on leasing you may not be aware of:

- The after tax cost of leasing equipment may be more advantageous than an outright purchase.
- Additional product may be added at any time by simply executing an Equipment Schedule Master Lease. Add-ons may be co-terminus to the original lease, or they may have a separate distinct lease term.
- Lease payments may be fully expensed for tax purposes.
- Payments are fixed for the entire initial lease term, thus providing an accurate basis for budgeting. This also provides for a hedge against inflation and rising interest rates! » Leasing preserves credit other short-term needs, and allows you to invest your resources in revenue producing equipment or projects.
- The Master Lease contract allows you to lease other product types under one agreement. Phone systems, computers, medical equipment and office equipment are just some of the many items that may be incorporated into a lease.