THE SMALL BUSINESS DOCTOR IS IN

Question: Should I buy or lease my equipment?

Answer: It depends. As usual, your situation and circumstances will determine which option is best for you and your business. For instance, if you are starting off with a large amount of capital, then buying your equipment outright will probably not impair your ability to operate and grow. In addition, if you are substantially creditworthy, you can probably obtain financing for your equipment with a traditional loan at a fairly low interest rate.

If, however, your circumstances mirror those of many other small business owners, with limited start-up capital and less-than-excellent credit, equipment leasing is an option for you to explore. Read on to discover why nearly 80 percent of all U.S. companies use equipment lease financing, and up to 33 percent of total U.S. capital expenditures are financed through leasing.

- To begin, equipment leasing is generally more affordable for newer, smaller businesses because of the obvious advantage of having the payments spread out over a long period of time. In addition, making smaller monthly payments preserves your valuable working capital for operating expenses and provides a cushion against potential cash flow problems.

- Leasing also offers a hedge against technological obsolescence. Rather than going through the hassle of trying to sell your outdated equipment to obtain the down payment on your newer, more efficient machinery, simply upgrade the equipment through your current lessor. Naturally, you always have the option of keeping the equipment at the end of your lease term. You can generally choose a $1 buyout option, a 10 percent balloon payment, or you can choose to pay fair market value of the equipment

- Finally, equipment leasing offers you the beauty of off-balance sheet financing along with several tax advantages. Since leasing is not a true loan, it will not be reflected as a liability on your balance sheet. In addition, it provides a faster tax deduction (when compared with depreciation) as the lease payments can generally be claimed over the term of the lease as operating expenses. Of course, all tax advantages should be thoroughly discussed with your CPA prior to signing an agreement.

Clearly then, before making a decision, you should consider your circumstances, research your options, and consult your CPA.

This Week's Answer Provided by GILCCC Small Business Committee Member, Christopher Friedl, JM Funding Solutions - "Financial Solutions for Your Business"

Please send questions to ddemonbreun@irvingchamber.com and look for your answer in future articles or on the Chamber website – www.irvingchamber.com