Why Lease?

GIANT
FINISHING, INC.

Did you know over 30% of all the equipment acquired in the United States is through leasing? This equates to $248 billion in leased equipment annually.

Benefits of Leasing

- *100% financing.* With leasing, there are very little, if any, upfront costs. And, a lease can cover soft costs such as installation, training, and shipping. Conversely, a loan does not cover soft costs and may require as much as 20% down, depleting cash reserves.
- *Tax and accounting benefits.* The IRS does not consider Tax Leases (FMV, 10% Option) to be a purchase, but rather a tax-deductible expense. Therefore, you may lower your taxable income by deducting the lease payments. Non-tax Leases ($1.00 Buyout, 10% PUT, SD=BO) are attractive to lessees who want the tax benefits of ownership and use of IRC Section 179. Consult your tax advisor on the specific impact to your business.
- *Flexibility.* Unlike loans, you can structure creative payments including deferred and skip/seasonal programs allowing you to miss one or more payments without penalty. Convenient end of lease options exist too: purchase the equipment, return the equipment, or renew the lease. If you need to terminate the lease, a buyout can be figured.
- *Upgrade technology.* A lease lowers obsolescence risk because you can upgrade or add equipment to meet your ever-changing needs. With FMV or 10% Option leases, the risk of obsolescence is on the lessor, not you.
- *Speed.* Leasing allows you to respond quickly to new opportunities with minimal documentation and red tape: less than a loan. Your application can be approved promptly and you can receive your equipment quickly.

Time Value of Money Example

Many people follow the business rule to invest in assets that appreciate and finance those that depreciate. Consider $25,000 is available in cash. Instead of using cash to buy equipment, place the cash in an investment, and lease the equipment. What is the net gain?

1. *CASH:* Consider investing $25,000 in a 5 year investment with an average return of 8%. After 5 years, the $25,000 = $36,733. Or, with an aggressive 15% return, that investment would be worth $50,284.

2. *LEASE:* In comparison, finance $25,000 in equipment in a five year lease with a monthly payment of $517.50 and an end of the lease option of 10%. The cost to lease, not including the 10% option is ($517.50 x 60) = $31,050.

Lease vs. Cash	8% Return	15% Return
Cash Investment	$36,733	$50,284
Cost of Leasing	(31,050)	(31,050)
Gain by Leasing	$5,683	$19,234

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Why Lease?...Continued

Cash - Loan - Lease

Wondering how a lease compares to using cash or a loan? Check out the comparison chart:

	Cash	Loan	Lease
Cash Flow	Buying has an immediate impact on cash flow by diminishing cash reserves.	A down payment as much as 20% plus collateral may be required. Also, loan payments are generally higher than lease payments.	No down payment is required. Leasing usually has less impact on cash flow due to lower payments.
Line of Credit	Liquid assets are depleted and may affect your credit worthiness.	A loan reduces your available credit from your financial institution.	A lease does not affect your line of credit. It also provides another means of accessing capital for your business.
Obsolescence	The owner bears all the risk of equipment devaluation. Obsolescence must be tracked by the owner.	The owner bears all the risk of equipment devaluation. Obsolescence must be tracked by the owner.	The lessee transfers the risk of obsolescence to the lessor when there is no obligation to own the equipment at the end of the lease.
Rate Risk	Cash should be used for income producing investments since you pay with today's dollars at today's value.	Banks prefer to loan money on a floating or variable rate tied to prime. Rate risk is on the customer, not the bank.	Payments are fixed for the lease term. Pay with next year's inflated dollars and take advantage of inflation.
Soft Costs	Paying cash for soft costs, which can be substantial, erode your cash reserves.	Banks rarely finance soft costs so cash is needed to cover these costs.	Leasing allows you to wrap soft costs into your payments and may cover all soft costs.
Upgrading Equipment	Owners must manage the disposal or selling of outdated equipment. This can slow down the upgrade process.	To upgrade or add on new equipment a new loan is needed and credit is reviewed again. This can slow down the upgrade process. Owners must manage the disposal of outdated equipment.	Leasing allows for easy upgrades or additions and you may keep the same payment by simply extending the lease term.
Write Offs, Tax Savings	Owners must manage asset liability on their books. Accounting standards require owned equipment to appear as an asset with a corresponding liability on the balance sheet.	Depreciation is tied to IRS depreciation schedules. With loans, customers can only write-off the interest portion of loan. The principal is depreciated.	Leased assets are expensed when it's a Tax Lease. Such assets do not appear on the tax return which can improve financial ratios. Non-Tax Leases can accelerate depreciation using Section 179.

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