

By Willy Campbell

Learn the Essentials of Equipment Leasing

If you plan to invest in new equipment for your business sometime soon, and were considering a loan to finance the purchase, you might also want to look into leasing as an option. If cash is in short supply, and/or the equipment you need may become quickly obsolete, leasing rather than buying can be a good option.

No matter what type of business you are in, almost any equipment you would need to buy can also be leased. Companies of all sizes, from sole operators to Fortune 500 firms, use leasing. According to the Equipment Leasing Association (ELA), about \$218 billion worth of equipment is leased by U.S. businesses each year.

Leasing can conserve cash. Whereas a loan usually requires that you invest a down payment in the equipment, a lease generally needs no down payment and finances only the value of the equipment expected to be used during the lease term. When you purchase the equipment outright, you assume all the risk of its becoming obsolete. Leasing transfers the risk of obsolescence to the leasing company, for a price, since there is no obligation to buy the equipment once the lease expires.

Leases are not loans so their costs are calculated differently. Equipment purchased is treated as an asset, appears on the Balance Sheet, and has a depreciation schedule which determines the amount of expense allowed on the Income Statement. Payments on an operating lease are considered an overhead expense that you can deduct from your business income on the Income Statement. Generally, however, the actual cost of leasing is similar to the cost of other financing options when you consider the entire transaction.

Flexibility is another leasing hallmark. You can tailor a lease to fit your month-to-month, seasonal or annual cash flow needs. If customers or the competition demand that you always have the latest technology, a short-term lease can help you get what you need and keep your cash. A startup might well look at lease options for the store equipment, van, and similar items it may initially need as a route to reduce initial capital needs recognizing that the cash flow must support the lease payments.

The ELA, a trade group of leasing companies, has created a special web site called "Choose Leasing" that explains the basics. Areas covered include how to lease equipment, leasing benefits, loan/lease differences and leasing terminology. The site also has a handy search feature to help you find a leasing company. Visit www.chooseleasing.org.

To learn more about leasing or to discuss other business issues, contact the Sandhills Chapter of SCORE “Counselors to America’s Small Business”. SCORE is a nationwide nonprofit association of expert business counselors who provide free and confidential business counseling to small business owners. The Sandhills Chapter is very active in counseling, mentoring and presenting free business seminars. It is currently expanding these activities and is seeking motivated volunteers. You can reach the Chapter via the web at www.sandhillsscore.org or at 910-692-3926.

Remember – send your business questions to me at www.info@sandhillsscore.org and don’t forget to provide a way to contact you. I may not be able to answer all of them in this column but every one will receive a personal answer from one of our Sandhills SCORE counselors!