



Dimension Funding, LLC
Equipment & Software Financing Made Simple

800 755 0585



Tax Benefits of Leasing

Leasing vs. Paying Cash: Why Leasing Saves 99% of the Time

One of the many myths that the general business owner believes is that paying cash for equipment or software is more cost effective than leasing. There are a few very basic elements that make leasing equipment or software, over paying cash, the right choice 99% of the time.

Pre Tax and Post Tax Dollars

The first step in understanding the benefits leasing has over paying cash is to understand how taxation plays into the equation. When a business pays cash for equipment or software they are essentially paying with "Post Tax Dollars". While a business may have the cash on hand to acquire equipment paying with Post Tax Dollars is essentially like adding 34% to the sale price of the equipment or software.

Leasing on the other hand allows you to use "Pre Tax Dollars". Lease payments can be written off as expenses. Within the structure of a true lease the leasing company owns the equipment or software license and you are agreeing to a long term rental. Rental payments are considered expenses and can be written off as such.

For every dollar you spend on equipment or software when paying cash your actual cost is \$1.34. Since every lease payment is tax free a dollar costs \$1.00.

Time Value of Money

When considering the benefits of leasing, a business owner must keep in mind the "Time Value of Money". The key element here is inflation. Today's money is worth more than tomorrow's money. That is a fact. With leasing a business owner can retain their money at its most valuable today and pay back the leasing company with inflated dollars tomorrow.

Working Capital and the Cost of Capital

Conservative estimates state that the average business sees a 10% return on it's working capital. When you pay cash for equipment or software you immediately lose this return because the money is caught up in the equipment or software. While most equipment and software acquisitions are thought of as income generating you can still realize this additional income generation and retain the return on working capital through leasing. It gives you the best of both worlds. In addition leasing allows you to match your stream of payments to the income the equipment or software is generating monthly.



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Example:

Assumptions: Equipment / Software Cost = \$100K; Lease Term = 60 mos; Payment = \$2,248

Cash Purchase:

$\$100K + \$34K \text{ (Tax)} = \$134K + \$50K \text{ (Lost Return)} = \$184K \text{ (Real Cost of Cash)}$

Leasing:

$\$2,248 \text{ (Payment)} \times 60 = \$134,880 \text{ (Lease Pmts)} + \$10K \text{ (10\% Residual)} = \$144.8K \text{ (Cost of Leasing)}$

Benefit of Leasing Over Cash = \$39,200

All things considered leasing proves to be more cost effective than paying cash 99% of the time. As a business owner the bottom line is what fuels your business and secures your future. Leasing has provides an opportunity for companies to become more profitable and fuel their growth.

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