

## Tax Benefits of Leasing vs. Cash



### The Real Cost of Paying Cash vs. Leasing

#### Why Leasing is Cheaper Than Paying Cash

One of the many myths that the general business owner believes is that paying cash for capital equipment is more cost effective than leasing said equipment. There are a few very basic elements that make leasing capital equipment, 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 a piece of equipment 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.

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 and you are agreeing to a long term rental of the equipment. Rental payments are considered expenses and can be written off as such.

For every dollar you spend on equipment 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 the "Time Value of Money" in mind. 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 it's 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 you immediately lose this return because the money is caught up in the equipment. While most capital equipment 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 is generating monthly.

#### Analysis

To calculate the tax benefits of leasing on your upcoming equipment or software acquisition, please click here. Use the spreadsheet to calculate the amount of money you can save by leasing vs. paying cash.