

Should You Lease Or Buy Business Equipment

By Berwyn J. Kemp

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Equipment financing in it's various forms is a multi-billion dollar industry. And since we live in an age where there are more businesses now. As well as more businesses being started than at any other point in history. The equipment finance industry will continue to grow at a fast rate now and into the future.

Just 30 years ago the main type of equipment financing was the borrowing to buy method, or debt financing. Or either the company had to purchase the equipment outright, which only a few companies could do.

The form of equipment financing know as lease financing, has grown at a very fast rate as well over the past 30 years. And is largely responsible for the overall boom of the equipment finance industry as a whole. When lease financing came along it gave companies more options and flexibility in obtaining the business equipment they needed. Particularly small and medium sized companies without large blocks of retained earning that they could use to buy equipment outright.

While both forms of equipment financing, debt and lease, offer advantages and disadvantages. Thus, a business should look closely at both forms, their particular situation, and the various options available to them.

With lease financing large outlays of capital are not needed, as with borrowing to buy. With debt financing lenders very often require large deposits or equity investments that can range from 25% to 50% of the price of the equipment. This is not so with equipment leasing . Therefore, equipment leasing will allow a company to retain valuable operating capital. Which can be used to create more profits, thereby, lowering the overall cost of leasing the equipment.

Another factor in favor of leasing equipment deals with a companies ability to borrow capital, to take advantage of opportunities or to avoid catastrophe. If a company take out a loan to buy business equipment. This reduces the businesses available lines of credit for other purposes. Because the loan is carried on the companies books as a debt. But, with leasing , usually, the equipment is not carried on the books as a debt. Yet is simply listed on the books as a footnote, so a companies ability to borrow capital is not impaired.

One factor in favor of borrowing to buy business equipment concerns equipment ownership. And the fact that once the equipment is paid for the company owns the equipment. Equipment that can have many years of useful life left, or with minor refurbishing can continue to produce profits for years to come. And which also can have some collateral value that the company can borrow against. However today many lease lenders offer various lease-purchase options.

The cost factor is another reason in favor of a company borrowing to buy business equipment, rather than leasing it. It will cost less in actual dollars and interest costs to borrow to buy business equipment. Than it does to lease the same equipment. Yet there are other factors involved with leasing business equipment that can lower the overall cost of leasing. One being that future lease payment will be paid with inflated dollars, so a companies capital will go farther.

There are numerous other factors that deal with the leasing versus buying business equipment equation. Such as, tax issues, equipment depreciation, and other factors. Therefore, the decision to lease or buy business equipment should be based on the advantages and disadvantages that both offer, and other opportunity costs involved.

Berwyn J. Kemp is a financial consultant who helps businesses obtain funding. For full information on his funding products and services. Or for a FREE subscription to his newsletter, The Business Funding Success News, you can visit him at: <http://www.bkempassoc.CityMax.com>

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