

Financing or leasing: Take a closer look!

I commonly hear the question: *“Tony, what is the more advantageous or beneficial way to acquire equipment? Should you buy it or should you lease it?”* I have two answers. I have found through research and my own personal experience when reviewing financing verses leasing plans: A.) Leasing plans generally work very well on new equipment. B.) Purchase plans work better on used equipment.

There are certainly leasing plans that are better than others in terms of the interest rates that are charged. Research has led me to use more leasing plans today. I am buying more new equipment. When we acquire used equipment, it requires bank financing. Many leasing packages offered by manufacturers are very attractive because a low down payment is required and the lease payment is a direct business expense. Our Dingo’s have been leased and we have found this plan to be acceptable and fair. We have started leasing our Isuzu Super Lawn Trucks.

The reason for leasing the trucks came from my research. I began earlier in my career buying used Isuzu trucks with 100,000 to 125,000 miles for about \$15,000. The truck would be 4 – 5 years old. I would then add the Super Lawn Truck system at an additional cost of \$15,000. My total investment towards the used truck would be \$30,000 financed for four years. Once the four year payments were completed I would then be the owner of the used truck. At the end of the payment term, the used Isuzu truck would be eight years old and have 150,000 to 170,000 miles on it.

With the leasing program that is offered through GMAC and our local Isuzu dealer, we can lease a brand new truck with the complete Super Lawn Truck conversion for \$800 per month. At the end of the four-year lease the residual value (purchase price) of the truck is \$10,000. This four-year-old truck that we have driven and serviced will have less than 60,000 miles on it. I can buy it fully equipped for \$10,000! In the example above I had to spend \$30,000 to buy a four-year-old truck that I hoped had been serviced properly. Also, the four-year-old truck in my first example had 100,000 to 125,000 miles on it. Through the leasing plan, we are able to buy our four year old trucks with 60,000 miles for \$10,000.

Yes, we have to lease four years at \$800 a month to create the opportunity to buy this low mileage truck. Over a 48-month period we will spend \$38,400 on a truck that we could buy for \$43,900. This is what we gain this by leasing the new truck. The truck has a bumper to bumper warranty for two full years. If anything from the radio to headlight malfunctions, Isuzu will repair it FREE, parts and labor. The Isuzu truck has a drive-train warranty for three full years with unlimited mileage! There is virtually no repair costs with this truck for a period of three years. You can not get that type warranty with a used truck.

Another benefit of leasing is that the entire lease payment is an expense for your company. When you purchase the vehicle, only the depreciated value of the vehicle can be deducted from your income taxes per year. Therefore you end up with a lower taxable income as you lease equipment. When you end up with a lower taxable income you are paying less taxes. That affects your profitability. I believe that there will be more and more opportunities for leasing any and all equipment in the future.

Here is one more point about leasing. It's not limited to just the mechanical equipment you use in your landscaping company. I have even found it advantages, from a cash flow standpoint, to lease my laptop computer system. There are companies that will provide leasing plans for a laptop computer, all of the software needed, the printer, carrying case, cables and accessories. There is talk in the industry now of leasing weed eaters and edgers! Leasing these types of equipment is probably not as common as leasing mowers, tractors or trucks. Leasing is an alternative way to expand your company's equipment needs. Leasing is offered with phone systems, copiers and computers.

Explore all of your options as you grow your company. Spend time working the numbers for yourself. Make an educated decision when purchasing or leasing equipment, then put the equipment to work so your customers can pay for it.

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