

Capital Equipment  
**“Lease vs. Own”**

**Prepared for:**  
**January 24, 2005**

## **“Leasing vs. Ownership”**

- **Leasing preserves cash flow**

Instead of an initial large cash outlay, once approved by your finance executive, you use time rentals to expense your capital equipment needs.

- **Ownership can exhaust cash flow**

It enables you to depreciate your capital equipment purchase.

Financing the purchase (“Loan”) can mitigate the initial cash outlay, but changes the name of this presentation to;

## Loans vs. Leases

- The major differences is on a Loan, you own, and on a Lease, you don't.
- On a loan you take the depreciation expense, and interest expense on your income statement, therefore lowering your taxable income and resultant taxes to the IRS.
- On a lease, TFC as owner takes the depreciation expense on their income statement. However, you can expense the entire lease payment on your income statement, and lower your taxable income.

## **Loans vs. Leases (continued)**

- Loans are liabilities on your balance sheet (debt).
- Leases are off-balance sheet, and are reported as notes in the financial statements.

Thereby improving your balance sheet and leverage ratios which bankers and other lenders evaluate.

**We already know that leasing preserves  
CURRENT cash flow ....**

## **Loans vs. Leases (continued)**

- Leases may allow you to borrow more in the future, with off-balance sheet financing, less indebtedness reported on a balance sheet.
- Leases allow you to take advantage of technological advances that may occur in the future. At the end of the lease term you can return the equipment with no further obligation to the lessor, and then lease newer more innovative equipment.

**General Guidelines:**

**If you are considering ownership of any capital equipment at anytime, you should purchase it or consider financing with;**

- Loan or Nominal Lease, with stated purchase option.

**If lowest monthly payment is your concern, you will want new equipment at some future date, you should consider:**

- Tax Lease (a/k/a Operating Lease or True lease), which has FMV option.

**Questions???**

**Call**

**National Marketing Manager  
Textron Financial Corporation**

**904-821-5001**