

# Planning to pay cash for your next equipment purchase?

## Consider leasing instead!

Leasing is a great way to preserve cash while still acquiring the equipment you need.

### Consider these factors:

- **"If it appreciates, buy it. If it depreciates, lease it."**

*Oil baron J. Paul Getty had it right. Lease items that depreciate in value like equipment, vehicles, and on-farm buildings. Use cash on things that appreciate in value, like real estate and investments.*

- **Hedge against the unknown**

*Weather, commodity prices, input costs, future costs, inflation are constantly changing. Hedge against those unknowns by financing with a short term (24-36 month) lease. With leasing, you only pay for the usage of the equipment during the term. At the end of the term, purchase it, surrender it, renew it, or take the opportunity to upgrade to the latest model.*

- **Mitigate future rate risk**

*Most people agree that rates will rise, but rates are still low right now. Lock in a fixed rate lease at a low rate. Use the savings to pay down higher priced debt.*

- **Cash has a price**

*With the low rates on leases, you may be better off investing your cash within your operation, which can provide a higher return than the cost of the lease.*

- **Leasing has a built in replacement cycle**

*Continually upgrade to the latest and greatest every few years without having to worry about selling the older equipment.*

- **Manage your finances**

*Using cash for an equipment purchase has an immediate impact on your balance sheet due to the cash outlay. Spread your payments across time and manage your cash flows with leasing.*

**To learn more about how to preserve your cash with leasing, contact your leasing representative today!**

#### EXAMPLE OF EQUIPMENT PURCHASED WITH CASH ON AN AFTER-TAX BASIS:

**Pre-tax cost of equipment = Cost / (1 - tax rate)**

Sales price (after tax dollars)	\$150,000
Estimated Marginal Tax Rate	30%
<b>Pre-Tax cost</b>	<b>150,000 / (1 - 0.30),</b> <b>or \$214,286</b>

*This means a pre-tax profit of \$214,286 must be generated to purchase the equipment with after-tax dollars.*

#### Lease payments are made with pre-tax dollars:

Cost of equipment	\$150,000
Term	5 years
Estimated Lease Payments	\$137,500
Estimated Residual	\$30,000
<b>Total Cost of Lease in Pre-Tax dollars</b>	<b>\$167,500</b>

#### Compare the Numbers on a Pre-Tax Basis:

Pre-tax Cash Cost	\$214,286
Pre-tax Lease Cost	(\$167,500)

**Pre-Tax Savings with a Lease \$46,786**

*This example is for demonstration purposes only and does not take into consideration any depreciation recovery, time value of money, or value of owner equity in a cash purchase. Please consult with your tax advisor on all tax issues.*



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