Lease or Buy: The Best Equipment Option

It's important to consider the pros and cons for your particular operation, before you decide to buy or lease new equipment. Before you decide to lease or buy, do some cash flow projections and look at the financial impact on your operation.

Leasing

Leasing is more common these days because many producers are keen to preserve their working capital. Leases on larger equipment typically last between three to five years, but the equipment can be tailored to fit the specific needs of your operation. Many equipment dealers allow the producer to choose the make, model and options and negotiate price. Producers can negotiate the payment option that best suits their cash flow.

The lease company will register a lien on the equipment through the Personal Property Registry. It shows the payment amount, due date, interest rate and length of the lease. It also notes if the producer can buy the equipment at the end of the lease and what the final payout will be. The producer is responsible for all taxes, insurance and repair costs associated with the equipment. Most equipment is covered by warranty over the term of the lease, but you need to review the lease agreement to be clear about what is actually covered and if there are any extra costs for exceeding the agreed upon accumulated hours.

A lease typically involves lower payments than buying, but there are two major drawbacks:

- The ownership remains with the lease company and the producer cannot claim any of the depreciation.
- The lease payments do not build an equity position in the asset.

However, there are some advantages:

- Lease payments can often be written off against income earned by the farming operation, but it is important to discuss this with your accountant to see how it applies to your particular operation.
- The phase of the business cycle also affects your choice to lease. If you are in expansion, it may be an advantage because it allows capital to be used to buy other assets (ex: land).
- Leasing allows instant access to newer equipment that draws skilled labour and new equipment is less likely to break down at peak times.

Owning

Many producers prefer to own their equipment, even though it is expensive and uses up available cash flow. Most producers finance big equipment buys through a commercial lender, while others pay cash. If you are financing new equipment, you can often spread payments out over seven to 10 years. If you're financing a used piece, you can usually finance it over five. The term of the loan must be equal to the usable life of the equipment or it's not a good buy. You're responsible for maintenance and repairs on the equipment.

Producers can choose fixed interest rates that will help with budgeting. Check on whether or not there are prepayment penalties in case you find you have extra cash to put towards the loan. The major benefit to financing is to protect your working capital position.

Owned equipment is included in your assets and appears in the liability column of your financial statement. As an owner, you can:

- claim operating expenses as eligible expenses
- claim the interest on your loans a business expense
- claim depreciation on the equipment based on the asset class

If you have questions about how depreciation would apply to an equipment purchase, talk to your accountant.

Contact us:

- For more information, contact a Farm Management Specialist
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