Equipment Leasing

Essential Facts for Canadian Business

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Why read a book about equipment leasing?

Simple. Leasing is an industry with myths and misunderstandings that often leave business people confused.

This book debunks the myths and will arm you with competitive strategies only leasing can give your business.

Whether you own your business, manage a business or are tasked with researching the best financing options for your employer, equipment leasing can be a powerful weapon in your business management arsenal. But like all good weapons, it needs to be handled properly. It's important that you understand how leasing works so you can harness it as a strategic advantage for your business. This book will arm you with the knowledge you need to make the best equipment financing decisions, for the right equipment and at the right time in your business lifecycle.

You'll learn which assets you should lease and which assets you should not lease, how to gain greater access to capital and how to strengthen your lines of credit. Most importantly you'll gain strategies to increase your profitability and build the value of your business so you can sell it or retire successfully when the time comes.

Although other financing options are available and may be better suited to your situation, you'll find I strongly recommend leasing equipment in all cases where the equipment value will depreciate over time, which almost all equipment will. Having been in the equipment leasing industry for more than 25 years, I'm happy to share the following financing facts, tips, and strategies at a time when economic uncertainty dictates the need for creative financing options. I compare models of leasing versus buying and I am always looking for the most appropriate way to help people run their business. As a business person, you're probably very busy, so I have intentionally limited each topic to a few paragraphs and if that's not brief enough, I have highlighted the key takeaway points on each page. The highlights will either reinforce the page's message or allow you to easily get the main concepts if you only have time to skim the book.

Here are four of the key takeaways that are explained in the book:

Profitability: Any equipment that generates revenue can be profitable in the very first month of a lease. When you buy, most equipment will not deliver a return on your investment for 1, 2 or even 3 years.

What to lease: Your business should always lease depreciating equipment and buy appreciating equipment

Taxes: When you lease, you can write off 100% of your payments. When you buy, you can only write off the depreciation. How good are you at calculus? Got your calculator ready?

Takeaways you'll understand after reading this book:

- How to make a profit from your equipment immediately

- What you should and should not lease

- How to avoid or reduce taxes

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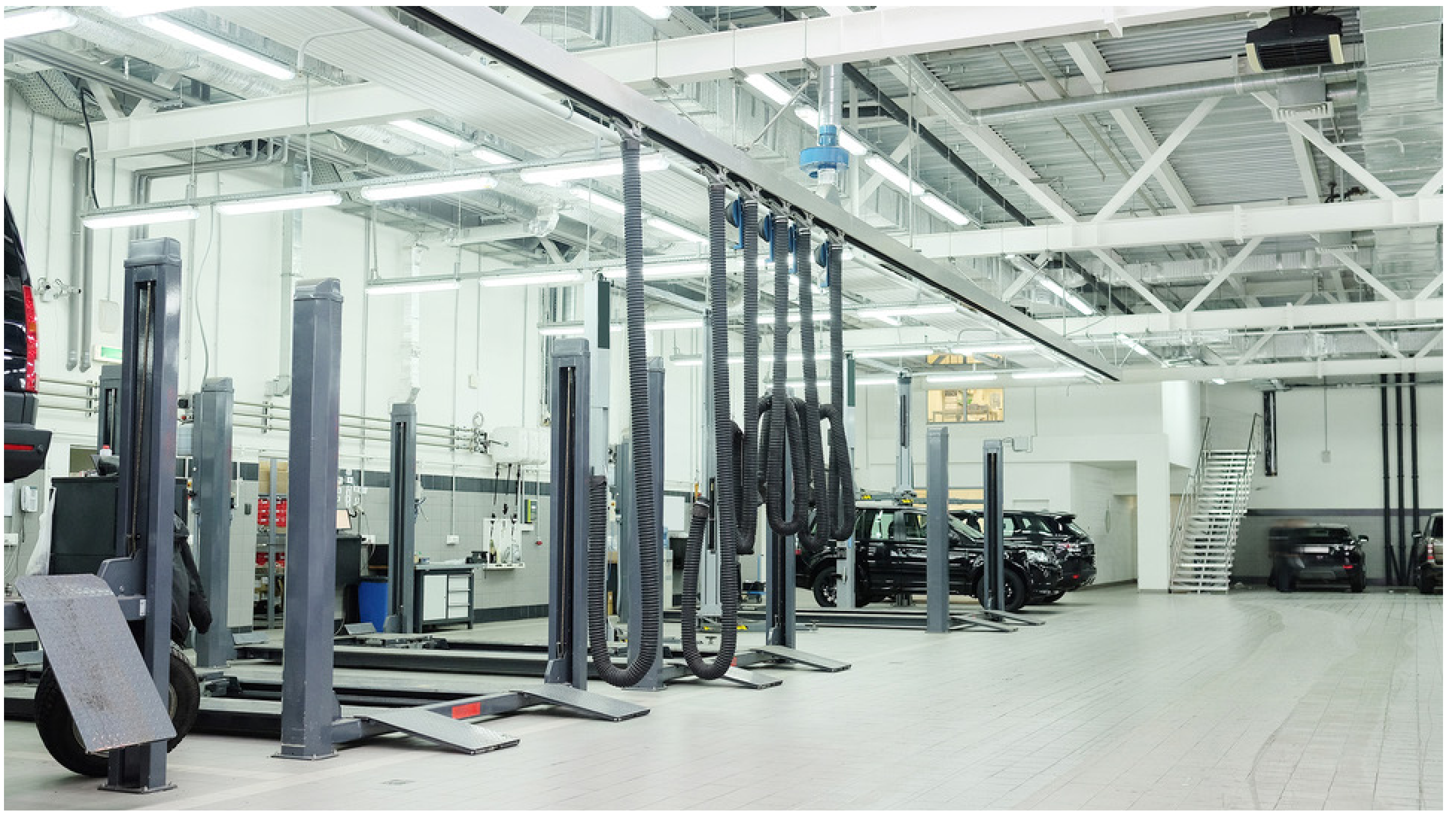
Credit: Leasing does not tie up your line of credit. It frees it up so you can easily fund your start-up or growing entity.

After you have read this book, if you are a manager or employee, you'll have the knowledge and confidence to make the best equipment financing decision for your employer. If you are a business owner, you'll have a full tool belt of strategies to make your business more competitive, more profitable and ultimately more valuable when you decide to sell, retire, or cash-in!



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- The best way to maximize the return on your equipment and optimize the value of your business

- How to better leverage your available credit

- How to avoid making costly mistakes

The Life Cycle of Leasing vs Buying Equipment

Whether your business is established, or you're starting up, you want your business to be profitable right out of the gate. Leasing your equipment is one of the best and quickest ways to start generating a profit from the start. It can make the difference between having cash available versus having your money tied up in equipment costs.

To illustrate this, let's take a look at the equipment life cycle of a company buying equipment versus one that chooses to lease.

A. Buying the Equipment

ABC Digital Agency was getting by with older computers and cell phones but they could be more efficient and turn more work around faster using newer technology. They bought three fully loaded Mac computers, complete with software and three iPhone 6s for $16,000 including 24 month extended warranty. The company used $10,000.00 from the reserves in their bank account, and dipped into their operating overdraft account for the other $6,000. They did talk to the bank about a loan but quickly realized the bank wanted them to jump through all kinds of hoops. They remembered being rejected for a loan when they first started their business and that left them feeling apprehensive about the banking process.

The new equipment performed well. It increased their production efficiency and they generated an extra $5,000 per month in billables. After expenses, wages, and taxes, they cleared $1,000 extra per month. Sounds like a good return doesn't it? Well, let's look a little closer at the math. They invested $16,000 and generated $1,000 in profit per month. At this rate, their investment takes 16 months to pay off. So for the first 16 months, they are only paying off their investment. Only on the 17th month do they actually start seeing a return on their investment. Not only that, but for 16 months, they had capital tied up which they could have been using to hire more staff, promote their business, go after additional contracts, and free up mental capital they used balancing their cash flow.

On top of that, yes, even with Mac computers, after 16 months of heavy use, it won't be long before they'll need to spend another $16,000 to replace the computers. As far as taxes go, they only get to write off a percentage of the purchase price over the course of 2 or 3 years.

At the end of the year their accountant was able to write off only the depreciation amount from their taxable income. So their taxable income was reduced by $4,800 ($16,000 x 30%) depreciation in the first year and $3,360 the following year.

Thirty six months later, by the time they decided to replace the computers again, the computers were practically boat anchors. ABC had been putting off the new purchase because they did not want to spend that big lump of cash again. Their production was again lagging with their technology. During the 27th and 30th month two of the computers had issues and all three needed new batteries. The company spent $1,500 on repairs and upgrades.

B. Leasing the Equipment

XYZ Digital Agency was running at capacity and got a new contract worth $5,000 per month. They knew the extra work would push them and their current technology over the edge if they did not find a way to become more productive. They decided upgrading their computers and mobile technology would help them handle the extra workload. They chose the same equipment as ABC company noted above (three Mac computers and three iPhone 6s valued at $16,000).

But, XYZ agency went to their favorite leasing company's website and submitted a quick quote application. Later that day the leasing representative called to discuss the term of the lease and asked which computer store they should make the cheque out to. The leasing company issued the cheque to the computer store where XYZ Digital Agency picked up the new computers and iPhones.

XYZ took out a 24 month lease on the equipment and included the 1 year warrantee extension as part of their lease so the computers would be fully covered under warrantee for the duration of the lease.

Their monthly lease payment was $750 per month. They was no downpayment required. They only had to pay the first payment upon starting the lease.

The new equipment, as with ABC in the buying example, generated an extra $5,000 per month in billable revenue. After expenses, wages and taxes they also cleared $1,000 per month extra.

Hence, in the first month they cleared $1,000 on their $750 investment which means they profited $250. So from the first month on, XYZ made a profit of $250 per month on their new equipment.

On top of that, at the end of the year their accountant wrote off the entire lease amount from their taxes owed. So their taxable income was reduced by $750 (payment) x 12 (months) = $9,000

The leasing rep called XYZ on month 21 as a heads up that their lease term would be up in three months, and asked if they wanted to buy the equipment out for $2,250 (the equivalent of 3 payments) or if they preferred to go to the computer store and get new, faster and more up to date equipment while maintaining their payments at about the same level. Since the warranty had expired, the lease was over, and the equipment was getting to be quite worn, they decided to get new equipment. Besides, friends of theirs had the new Macs with super fast SSD drives and they were stoked about getting the state-of-the-art Mac technology.

Their admin assistant even made a deal with the lease company to buy out her computer for $300 (10% of its original value). Her daughter is studying design online and is enrolling in SAIT, so she was thrilled to receive the computer.

"Instant Profitability" Strategy

Leasing revenue generating equipment is a strategy you can use to realize Instant Profitability from as soon as you start using your equipment, rather than after you pay the equipment off. Let's review the "Instant Profitability" numbers from our 'The Life Cycle of Leasing vs Buying Equipment' without the whole story around it:

A – ABC Company spends $16,000 buying new equipment

The company depletes its bank account (or it's line of available cash or credit) by $16,000

$1,000 profit generated x 16 months = $16,000 to pay off the equipment and equipment purchase (16 Month Payback)

On the 17th month the company starts making a profit on the equipment

By this time, it's not long before the equipment needs replacing and they have to repeat the whole cycle again.

Buying: ABC Company buys equipment and takes 16 months to pay off the equipment before they start making a profit.

B – XYZ Company leases new equipment for $750 per month (valued at $16,000)

The company has zero cash outlay and makes the first payment upfront ($750)

On the first month they generate $1,000 profit from using the new equipment which costs $750 = $250 return on investment

***Et Voila* – "INSTANT PROFITABILITY"**

Leasing: XYZ Company leases equipment with no cash outlay.

They only make monthly payments, which are less than the revenue the equipment generates.

They make a profit in the first month of using the equipment.

What is leasing and how does it work?

Before we get into tips and strategies, let's take a quick look at the business of leasing and how it works.

Often, when business managers need to purchase equipment, the financing decision will revolve around comparisons between using available cash flow or using the company's cash reserves. The most challenging decision can be weighing the pros and cons of dipping into these reserves against the need to have cash on-hand for emergencies. To a small or medium-sized business, cash is its lifeblood. If there's not enough cash for day-to-day expenses, a downward spiral can begin, affecting the normal operation of the company and often signaling its demise.

The decision to purchase new equipment may also depend on whether or not the company has the cash to purchase the "right" product to do the job. They might have enough to buy a sub-standard product, but will it effectively get the job done? Will the company operate as efficiently and professionally as needed to maximize its competitiveness and resulting profitability?

The best method to finance your equipment can become clouded when the subject of interest rates, lines of credit, tax advantages, and other financial considerations enter the calculation. Whether you use your own money to purchase equipment, you borrow money from the bank or you lease the equipment, several factors go into calculating your true overall equipment cost given your specific situation.

The good news is there are some clear rules of thumb that will lift the fog to make your decision easier.

Whether you take a loan for your equipment or lease it, you will have to pay interest. It's simply the reality of using someone else's money to make a purchase. Unless you are borrowing money from family or friends, the lender is investing in depreciating equipment on your behalf, in the hope that you're going to pay the money back, on time, in regular intervals.

The trick is to use your money on revenue generating activities rather than tying your money up in equipment that is losing value over time. Examples of "money generating activities" are covered in the following sections but may include marketing, sales, training, a good hire designed to lead to better business performance, competitiveness and profitability. There are countless ways for your business to make a better return on your cash than tying it up in depreciating assets.

In general, you can expect a leasing company to calculate your lease payments using a higher interest rate than a bank will for a loan payment, but that doesn't necessarily mean the payment will be higher. The payment will depend on additional conditions such as how many payments you make in advance, and the "end of term" purchase option. We'll cover these reasons in the chapter named "Keep Your Bank Lines Open". It bears mentioning, that lease payments are a 100% tax deductible business expense meaning that interest payments will be returned to you in tax savings, assuming your business is or will be in a taxable situation.

In most cases, all leasing companies have some wiggle room in their pricing. There will be a non-negotiable base rate, and then the representative of XYZ Leasing Co. or your lease broker will "mark up" that rate based on market conditions. This is similar to any other business. For example, a computer retailer purchases computers at a wholesale price then sets a competitive selling price which includes a reasonable profit margin that allows them to keep their doors open, pay employees and pay taxes. How much the base rate is marked up will vary from one leasing company to the next, whether dealing with a broker or single source leasing company.

At the end of a "loan" period, you will own the equipment. At the end of a "lease" term, you will have the option of returning the equipment to the leasing company, no questions asked. Or you can choose to purchase the equipment from them at a predetermined price, often 10% of the original purchase price. Before you make your lease, loan or buy decision, consider what condition the equipment is likely to be in after the payment period (perhaps 3 years), what price you will be able to get for it on the market and what effort it may take for you to find, and negotiate with a willing buyer.

What Can You Lease?

In a nutshell...EVERYTHING!

You can lease everything from heavy duty construction equipment to artwork for office lobbies, and of course "common" assets that are necessary for every business, including:

- ✔ Computers
- ✔ Software
- ✔ Office Furniture
- ✔ Telecommunication Equipment
- ✔ Medical and Dental Equipment
- ✔ Manufacturing Equipment
- ✔ Automotive Equipment
- ✔ Digital Printing Equipment
- ✔ Restaurant Equipment
- ✔ Landscaping Equipment
- ✔ Storage Equipment and Shipping Containers
- ✔ Store Fixtures and Displays
- ✔ Signage
- ✔ Surveying Equipment
- ✔ AV Equipment, Smart Boards
- ✔ Machine Shop Equipment
- ✔ Material Handling Equipment

If you think of something you require, chances are you can lease it. **You can even lease your company website.**

Almost everything in your business is leasable.

You can lease Artwork, Software, Production Equipment, Retail Fixtures, even your Company Website!

And why should you lease equipment?

Because your company benefits more from the USE of the equipment than it does from the direct ownership of the equipment. To use a crude example, you wouldn't pay your receptionist 3 years' salary in advance, would you? Of course not. Your equipment and your staff are paid as they generate profit for your company.

When you lease, your company's cash remains available to you to use in other revenue generating / business growth activities.

Now we will discuss some of the methods and strategies you can use to leverage leasing to maximize the growth of your company.

✔ Customers Stories

Medical Example: *: We were asked to finance some medical equipment for a local company called Canadian Medical Centres that operates a mobile medical treatment service often positioned on rig sites that are required by law to have emergency medical staff close by. First we leased them a new ambulance. Then we leased them all of the equipment on the ambulance. And finally, we leased them all the drugs on the ambulance. Unusual? We thought so. But they wanted to lease, so we sourced an underwriter and worked with them to make it happen.*

Depreciating versus Appreciating Assets

Your company has two types of assets. Before getting too far into leasing, let's quickly chat about the two types of assets your company requires and which of them is better to lease.

- ✔ **Appreciating Assets** - equipment and assets that gain value over time. Examples include art, commercial real estate and other "investments".

- ✔ **Depreciating Assets** - equipment and assets that lose value over time. Good examples would be computers and any kind of technology, office equipment, vehicles, medical equipment, gym equipment, restaurant equipment, etc. Pretty much anything you buy that will not be worth as much in a year, as it is the day you buy it.

Now that we have that sorted, note that when we talk about leasing assets (equipment, technology, software, etc.) throughout this book, we will be talking about depreciating assets.

Lease Depreciating Assets

Buy Appreciating Assets

Terms, Payments and Buyouts

The term of an equipment lease can be anywhere between 12 and 72 months, with the most common terms being 24, 36, 48 and 60. However, a lease can be any number of months you like, under 72. This matters because the goal is to create a monthly payment that works with your cash flow. Remember, leasing is a great way to keep your business going as its growing. In leasing, a shorter term may be preferable only because the longer the lease term, the more you'll pay in finance charges. The goal is to keep the lease as short as possible but still have a monthly payment that doesn't compromise your cash flow.

Generally, you have three options at the end of the lease:

1. You can buy the lease out for a pre-determined amount;
2. You can return the equipment to the leasing company; or
3. You can upgrade to new equipment.

If you're purchasing technology and your goal is to always have the fastest and most current products, you will want to book a lease with a higher residual, such as Fair Market Value. Then you can return the equipment and upgrade to new technology at the end of the term without incurring any additional costs.

There are many options at the end of the lease if your goal is to own the equipment. A stretch lease, for example, will offer you an early purchase option before the lease term is actually over, and then a final purchase option at the very end of the term.

If using the latest technology is important to you, lease with a shorter term and higher residual so you can update your equipment more frequently and keep your payments low.

End of term buy outs can be affected by WHAT you are leasing. For example, software lease buyouts are $10 because the leasing company has no intention of actually taking it back. But a trailer lease can have an actual "booked" residual because of its future value.

The most common end of term purchase options are a pre-determined percentage, (such as 10% or 15%), $10.00, or Fair Market Value. Often the leasing company will dictate what the buy-out can be at the end of the lease because of the nature of the asset. As we just mentioned, if you're leasing software, the buyout at the end of the lease should never be more than $10.00. This is because there is no perceived value in the software at the end of the lease and the leasing company has no use for it when the lease is over.

With a "stretch lease" you'll have the option of purchasing the equipment at the end of the term.

What you lease can effect the end of lease buy out. Software leases tend to have a $10 buyout. Other leases often carry a 10 or 15% buy out.

Helping You Start Your Business

All businesses need some kind of equipment to start up. It might be furnishings to project the right image for your new office, computers to manage client accounts, industrial equipment to outfit your shop, a backhoe or other piece of equipment to fulfill your first contract. We have seen many new businesses start out in a "shared office" situation, but as they grow and hire people, it makes economic sense to have their own bricks and mortar office and these startup costs can be crippling if drawn from much needed cash reserves.

So, the question begs to be asked: Can a startup business get lease financing?

The answer is …sometimes.

To set your company off on the right foot, here are the elements that may lead to an approved application when starting up a new business:

1. The owner has industry experience;
2. The owner has good personal credit;
3. The owner is willing to co-sign and stand behind the new business;
4. The owner has industry contacts from previous connections;
5. The owner already has contracts in place to show steady revenue right out the gate.

5 things that will be considered when you apply for a lease as a new business:

1.
Your industry experience

2.
Your personal credit

3.
Your willingness to provide a personal guarantee

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If the answer to most of these questions is yes, chances are you will be able to structure a lease for the equipment you need to get started as your business risk is mitigated by your knowledge, personal stake in the new company, and contacts.

It is important to note that when you put a piece of equipment on lease, the only thing the leasing company holds title to is that one particular piece of equipment, not all of the company's assets. Best of all, most leasing companies only have a one-page application you need to complete. If they can't find enough financial information on the company through the corporate credit bureau, they may ask for a financial statement. Leasing companies, like any other lender, need to do their due diligence, but their requests may be less demanding than other lending institutions since the lessor only holds title to the equipment.

4. Established contacts and connections that will help your business succeed

5. Contracts or steady revenue streams you have already established

Advantages of Leasing - Tax / Financial

When you buy out a capital lease and then sell the equipment to a third party for a profit, the profit should be recorded as a capital gain for tax purposes

As a business owner, some of the most important points to consider are the tax and financial advantages of leasing equipment. Structured correctly, lease payments for business equipment are 100% tax deductible. There are essentially two types of leases, operating and capital leases. The way in which you account for these leased depends on which type of lease it is.

Operating Lease - risks and benefits of ownership of the leased equipment remains with the lessor, while the lessee pays maintenance cost. The lessor (the owner) transfers only the right to use the property to the lessee (the business requiring the property). The property is returned at the end of the lease. The lease payments are treated as an operating expense in the income statement and does not affect the balance sheet.

The operating lease must be bought out at fair market value. If bought out, the fair market value amount is shown on the balance sheet as an asset and subject to amortization. An operating lease is a good option when the company is frequently updating or replacing equipment (i.e. the lessee is protected from obsolescence).

Capital Lease - risks and benefits of ownership are essentially transferred to the lessee. The end of lease buyout will be included as an asset value at the lease's inception. Because of this, the leased equipment is recognized as both an asset and a liability on the balance sheet. Amortization and interest are expensed on the income statement.

It should be noted that the buyout at the end of the lease is included in the asset value at the inception of the lease.

A lease must be treated as a capital lease if it meets any one of the following four conditions:

1. If the lease life exceeds 75% of the life of the asset;
2. If there is a transfer of ownership to the lessee at the end of the lease term;
3. If there is an option to purchase the asset at a "bargain price" at the end of the lease term; or
4. If the present value of the lease payments, discounted at an appropriate discount rate, exceeds 90% of the fair market value of the asset.

The lessee pays for maintenance, insurance and taxes. The lessor retains title until the end of the lease.

When a capital lease is bought out and the equipment is then sold to a third party for a profit, the profit is recorded as a capital gain for tax purposes.

In the case of both lease types, if a lease is bought out and then sold to a third party for a profit, this would result in a capital gain for tax purposes (sale price less purchase price). There also may be recapture if any depreciation has been taken.

Structured correctly, lease payments for business purposes are 100% tax deductible.

Advantages of Leasing - Conserve Your Capital

“Cash is the life blood of any business.” as many have readily identified. As a business-to-business consultant, I see first hand how cash restraints can hamper a business, stunt growth and cause hours of stress and anxiety for business owners, managers and staff.

Why would you lease equipment when you can afford to pay cash?

Cash is the life blood of your business. Available capital is critical. More commonly known as a “rainy day” fund, businesses require capital for opportunities and emergencies, such as inventory you can buy only with cash, or when receivables are late and payroll is looming.

Over the decades, I have heard the following statements in one form or another “Leasing is expensive,” “It’s a waste of money,” or my favourite, “I pay cash for everything!”

Many times I have told business owners, if you want to be more profitable, follow this advice. If it appreciates, pay cash, lease everything else. Use capital on items that appreciate or are actual investments; use leasing on items such as office technology and tools of the trade that depreciates in value, wear out and need replacing in a few short years.

Having cash resources available will make it easier to invest in revenue generating or cost reduction activities such as marketing, trade shows, sales trips, advertising, hiring qualified employees, training or pre-paying invoices for discounts.

I can say with confidence … If it appreciates, pay cash; lease everything else

Here's an example of putting cash reserves to good use. A business that has cash can purchase more inventory and turn it over more often. Costco has this down to a science. They can often turn inventory three or four times a month, because with each turn they have more cash and therefore, more purchasing power. If you can grasp this concept, then does the finance charge on the forklift really matter? Consider instead, the value the forklift contributes to your business as it moves new inventory onto a shelf for the fourth time that month. Switch your focus from the cost to the return on investment.

Cash preservation is a fundamental strategy for business success. The following quote is from a good friend of mine, Paul Moffatt, a successful telephone systems business owner:

"Preserving cash is one of the fundamentals of running a successful business. The more cash you keep, the more chance you can weather a setback, a slowdown in sales, or an emergency. Many businesses found that out in October 2008 when industry literally came to a standstill. Those businesses that didn't have reserves either had to scramble to borrow money; just as the banks weren't lending, or they had to inject personal savings. We saw many companies scramble to survive, who, just a few of months before, were very healthy."

This use of cash is one of the most overlooked ways to increase the profitability of your company. Many suppliers are very happy to offer "substantial" discounts if you pay for products in advance. I have seen suppliers offer up to 5% discounts for advance payment, rather than paying on a net 30 day basis. Believe me, if you take the supplier's risk out of doing business with you, they will make it worth your while. Let's say you pay for your inventory - cash in advance and you turn that inventory once a month. Based on the 5% discount, in one year you would make 60% rate of return on your money. Much more than any finance charge you are paying for leased equipment. That's profit that can go straight to your bottom line or perhaps give

Keeping your cash to negotiate discounts with your suppliers alone could earn you a 60% rate of return on your money.

you a strong competitive advantage. I've written more about Supplier Prepayment Strategies on my blog at PriorityLeasing.Net/Prepayment-Strategies

"Building value" in your business is the name of the game. Rather than paying cash or getting a loan for your depreciating assets, use your money to get discounts from your supplier, increase lines of credit, turn inventory, improve technology, and increase the overall profitability of your company. Remember, to maximize the value of your business, you need the highest possible profitability. As Michael Gerber, author of the "E-Myth" business books, always says "Build your business for sale, someone will buy it, even if it's you!"

If you already own, or recently purchased, late model assets and want to learn how you can still take advantage of the strategies I have listed above, check out my *Sale Leaseback Strategy* page.

Advantages of Leasing - Keep Your Bank Lines Open

When is the easiest time to get credit? When you "don't" need it.

Since an operating lease is considered an expense and not a liability, your balance sheet will be stronger and you will be in a better position to secure a larger line of credit.

As a business owner, you should always find ways to increase your line of credit, even if you don't need it right now. In all likelihood, you will need some short term cash in the future. Instead of paying cash for depreciating products, keep your cash - and lease them. An operating lease is considered an expense and won't affect your ability to utilize your line of credit.

Like having cash in the bank, available credit lines are important for non-equipment related activities such as hiring, training, marketing and advertising, as well as for emergencies and opportunities.

Lines of credit are important for emergency situations where funds over and above your cash on hand may be required to bail you out.

Leasing is considered an operating expense, not a liability, so leasing will put you in a better position to secure a larger line of credit.

To illustrate the importance of keeping your lines of credit open, here's an example that happened in our own company. A client needed an order to be fulfilled immediately but was stalled due to logistics between the major players. To illustrate, we were the hub between:

1. a large educational institution that urgently needed $50,000 in new computers for school programs that were about to start.
2. the computer vendor who would not release the equipment before payment was received
3. the financial institution that was funding the transaction

The company selling the computers would not ship without payment, and the financial institution would not pay without delivery. It was a stand-off with nobody willing to trust anyone.

We had worked with the educational institution for years and once they had reviewed the lease and agreed to the terms and conditions, we knew there would not be a problem. So, with OUR rarely used, wide open line of credit, we were able to buy the equipment, get the computers delivered and then sell them back to the bank, who in turn, activated the lease. It took some paperwork, but our available line of credit bailed us out of a tight spot and the school received their computers in time for classes.

The point is, we had an available $50,000 line of credit that enabled us to save a deal that was about to go sideways. Because of our line of credit, we were able to successfully help a sizable client while still making a profit and building trust toward future orders.

Advantages of Leasing - Current Technology

As a business owner, you should be concerned with keeping your technology current. There is a tendency for owners to not replace technology if their current product is "paid for." It must be psychological. Far too many times, I've seen owners struggle while trying to run their business with outdated technology. It's very frustrating for their staff and their customers. The real tragedy is competitors can easily outperform them with the right products. Switch your mind set and try looking at technology as an "operating expense". Plan on a monthly payment and consider it an ongoing expense like your rent and utilities. Keep this expense within profitable ratios, but always keep an eye open for upgrades and training that can increase your profitability. As a side note, you probably have heard it said that over 90% of people using Microsoft Office software use less than 10% of its features, so training your staff on current technology is an investment that may deliver meaningful productivity returns.

On an evergreen lease program, your lease payment will stay roughly the same over the years while old technology is shipped out and new up-to-date technology is brought in. A review of your "evergreen program" should take place every two to three years as your technology needs changing.

The automobile and photocopier industries have used this ideology for years, keeping people and paper moving with little or no down time.

Stay ahead of your competition AND help your staff be more effective and productive. Technology, including installation, training, data transfer, and software, is ALL lease-able. By

View technology as an "operating expense" rather than a capital expenditure

Either get an "evergreen lease" which facilitates seamless updating to current technology on a regular basis, or go for the shortest term you're comfortable with leasing these kinds of items, you will be equipped to stay ahead of your competition. You'll also be equipping your staff to do a better job, be more effective / productive and ultimately more satisfied with your company as their employer.

Technology today moves at lightning speed. Current hardware, software, and telecommunications can give you a leg up on the competition. Evaluating the suitability of your technology to your business requirements and evaluating new technologies on a regular basis, at least once a year, can help you stay ahead of the curve.

Anyone who has used antiquated computers and software knows how frustrating it can be for both customers and staff. For example, if a client calls in today and asks a question about their account or their order, how long will it take an employee to retrieve the answer using the older technology you have in place? Would today's technology enable your people to more quickly and effectively serve your clients?

If you are working with state-of-the-art equipment you can develop a state-of-the-art business and reap the financial rewards

Advantages of Leasing - Stay Productive with New Equipment

In today's fast moving world of equipment even leased equipment can quickly become outdated.

When you buy your equipment outright, you own it – either at time of purchase or after the loan is paid out. When you want to upgrade, you only have three options. Sell it, trade it or toss it out. This usually means spending time and money to find a buyer, or negotiate with a vendor for a trade-in value. Selling privately can be painful and risky, while trading in can affect your ability to negotiate the best price on your new equipment.

When you lease equipment, you have the flexibility to plan your equipment upgrades and life cycles more effectively. You are no longer constrained by the price your outdated equipment can fetch you on the used equipment market, if it has any remaining value at all.

A question we often hear is, "what happens if I need to upgrade my equipment in the middle of the lease?" It's a good question as no one wants to be stuck in a lease with outdated or worthless technology.

There are two main issues to address here. First, when you apply for a technology lease (computers, high-tech equipment etc.), ask your lease provider for the shortest term you're comfortable with. In most cases, underwriters will only lease technology up to 36 or 42 months anyway. While the most common lease terms are 24, 30 and 36 months, you can request any length in between. So the question is, what payment are you comfortable with, and how much cash you would rather allocate to other, hopefully revenue generating, expenses like marketing, training and achieving other operational efficiencies?

You CAN upgrade equipment in the middle of your lease term, often with outstanding interest on your initial lease being forgiven

Secondly, you CAN upgrade your equipment in the middle of the lease, keeping you competitive no matter how much of the lease term remains. In this case, the outstanding interest on the lease is discounted, and the new equipment cost is added to the remaining principal of the first lease. This amount is then amortized over a new term.

Also, you may negotiate a better price on new equipment if your supplier offers a trade in allowance on your old equipment.This might not work on all equipment types, but it is very common with equipment that holds its value such as yard equipment, shop, industrial, and construction equipment.

Does upgrading work with other types of equipment? Of course! Whether it's an MRI machine, a server farm, surveying equipment or a dental drill, if you want to be the best, you need the best equipment. Anything less usually means you are not able to perform at your best. Leasing equipment using these strategies will put you in position to cost effectively use the latest state-of-the-art technology, while maximizing your performance and monitoring your cash flow.

You can negotiate a "trade in" allowance if upgrading to a newer equipment lease

✔ Customers Stories

Equipment Upgrading Example: *Digital printing equipment has advanced quickly over the past years. Zul Allidina of Sure Print wanted to upgrade his Xerox equipment while in the middle of its lease term. We helped him replace the equipment with new, more advanced equipment and maintain his monthly payment.*

Advantages of Leasing - Facilitate Budgeting with Less Risk

Leases can help you facilitate budgeting within your company, so you know exactly what your monthly payment is. By having a lease payment fixed for the length of the term, there will be no surprises, so you can predict costs well into the future. Some loans on the other hand, may have a "floating rate" that you can't control. And furthermore, a lease cannot be called in, unlike some loans. I have heard horror stories of lenders calling in loans sometimes for no apparent reason. Here's an example told to me by a hedge fund manager.

"In 2012, a publicly traded Canadian resource company decided to reduce their debt from 4+ million during the up-coming fiscal year of 2013. During that year, through operations, the company achieved a significant reduction of debt, thus making their balance sheet look very good. Come January 2014, the company debt was 1.4 million with the exact same assets as in January 2013 and only a 5% decline in revenues. In March 2014, the company's bank called the loan without warning and with no clear explanation. The company was forced to sell equity at a time when equity financing was difficult and ultimately costly to the company's current shareholders."

Leasing allows you to get all of the equipment you need right away as opposed to bits and pieces as you can afford them. Buying piecemeal leaves you with a mix of products that often aren't compatible with each other. With an affordable monthly payment, you can also get the best equipment for the job and not a poor second.

And what if you need 10 suites of Autocad but only have cash for 8? Does someone go without? Or, if you need specialized equipment to start a new project? By leasing, you can increase your spending power and everyone can have exactly what they need. No sharing, no poor second hand products.

Leasing allows you to get all the equipment you need right away instead of only bits and pieces you can purchase at the time

Lease payments don't change, unlike "floating loan rates" or other types of borrowing which the lender can arbitrarily "call in" at any time

The Employee & Customer Satisfaction Formula to Profitability

Employee attitude and company culture affect your business success. Keeping employees happy is crucial to having an effective business. Aside from company culture, using the latest technology and easy-to-use equipment can greatly effect employee satisfaction. Provide employees with the proper equipment to do their jobs efficiently decreases possible dissatisfaction with outdated technology. If you are a trades person yourself, chef, medical or service professional, I am probably preaching to the choir here.

In James Heskett's book "The Service Profit Chain," he explains that employee satisfaction leads to customer satisfaction which leads to greater profitability. The book outlines the results of one of the most in-depth studies of its kind and sites case studies including British Airways, Southwest Airlines, Florida Power and UPS.

Here is his simple formula for building a great company:

Employee Satisfaction + Customer Satisfaction = Profitability

Of course this requires leadership, so some have added "Leadership" to the formula.

New up-to-date equipment enables your staff to maximize their performance which in turn enhances customer perception of your company. Think of a customer service person who is trying to serve her clients, but her older computer is lagging as it slowly loads pages. Yes, the computer is only 4 years old, but she knows how fast her personal new Mac computer can get the job done. Rather than focusing on your clients' needs, she's spending time dealing with this and cursing your office's "

Up-to-date technology and easy-to-use equipment can improve employee satisfaction

New up-to-date equipment enables your staff to maximize their performance which in turn enhances customer perception of your company dinosaur" of a computer. She wishes she had the tools to more effectively serve your customers and move them into the sales cycle quicker and more effectively.

Now, imagine how she feels when she switches to an up-to-date computer and services clients more effectively and in less time. Your clients are now getting the answers they want quickly, reinforcing their belief that they are dealing with a competent supplier. Not only that, but by serving clients faster, your employee will be able to serve more clients per shift. With this quick turnaround, your company will have happier clients leading to more sales with less resistance delivering more profit to the bottom line.

New equipment will project your professionalism and reinforce your clients' purchasing decision

New equipment shows your customers your intent is to do the best job possible and you are willing to invest in your business to get this done.

Let's review another example of how old equipment can be a detriment to your business's profitability. Boris works for a landscaping contractor, caring for yards of busy homeowners. This morning, like most mornings, the riding mower he uses would not start properly. It took a few tries, but he finally got it started only to be reminded of the excessive noise and fumes the equipment emits. It always seemed like a struggle to just get the day started and stay in a good mood. From time-to-time, homeowners picked up on his mood and quite frankly, they weren't very impressed by the older equipment either. Lately, Boris has been showing up late for work or not showing up at all. How do you think Boris would feel using newer equipment? How would new equipment affect his performance and the customer's perception of your company?

Rate Factor versus Interest Rate

Leasing is not borrowing money, it is essentially a payment in exchange for the exclusive use of equipment. You select the equipment and negotiate the purchase price. The lessor then purchases the equipment for your exclusive use in exchange for a monthly payment over a fixed period of time. Your signature commits you to honoring your side of the agreement by making the "agreed upon" payment every month, on time.

Unlike mortgage rates, which are publicly advertised and applicable to everyone who qualifies, lease rates actually vary from one transaction to the next. Lease rates are not stagnant, but are determined by a variety of factors including type of equipment and your company's financial strength.

Factors that influence the finance charges include:

1. Type of equipment being leased
2. Lessee's industry
3. Time in business of the lessee
4. Financial strength of the lessee
5. State of the company's credit bureau
6. Lease term preferred by the lessee

Based on the above criteria, you can see why lease rates are going to be all over the board. For example, a new nightclub leasing kitchen equipment will be quoted a higher finance charge than a municipality leasing a photocopier. Different kinds of products, industries, and corporate credit all come together as risk is analyzed.

Because the finance charges are a blend of the underwriter's cost of funds, and all of their internal administration fees what you will most likely get is a "rate factor" instead of an interest rate. For the record, a "rate factor" is all of the lease costs rolled into a "cost per thousand". For example, on a 24 month lease, the rate factor will be around $50 per thousand. So as you can see from the calculation below, your $2000 laptop will cost you $100 per month. An equipment vendor may use a more exact factor that looks something like this .04796 but to keep it simple, let's use a whole number for our example.

$2000 divided by 1000 x $50 = $100

Cost Of Equipment divided by $1000 x Rate Per Thousand = Monthly Payment

If you want to know what your total finance charges are going to be, it's easy math. Simply multiply the term (number of months) by the payment and subtract the equipment cost. Weigh this against other factors, such as your tax savings and the challenges of dealing with your bank, and then decide if leasing is really the route you want to take.

Total finance charges can be calculated using this formula

(Term x Payment) - Equipment Cost = Finance Charges

Selecting Your Equipment Vendor

Canadian businesses looking to lease equipment for their companies, can purchase anywhere in Canada and the United States.

You can also purchase your equipment overseas, but if you want to lease it, you will have to pay for it upfront. The leasing company will then purchase it from you and lease it back to you. In our industry, this is called a "Sale Lease / Back" and will involves a few more steps than your standard lease agreement.

Regarding equipment vendors, I believe it is safe to say 99% of equipment suppliers have been approached by a leasing company asking if they can provide financing for their customers. After

Canadian businesses can lease equipment purchased from Canadian or U.S. Suppliers

Equipment purchased overseas can be leased through a "Sale Lease / Back" agreement all, it's a win/win/win: the customer gets their equipment with a reasonable monthly payment, the vendor gets a sale, and the leasing company has a new customer.

As this threesome is very popular, most equipment suppliers have many leasing reps darkening their doors. The positive side of this scenario is your equipment supplier should be able to refer a choice of reputable leasing sources to help you get the best terms and conditions for your situation. If a supplier insists you have to use a specific leasing company they recommend, it may be a sign the vendor has an interest behind the scenes you may not be aware of.

Do not be afraid to shop around when it comes to leasing. Remember this, as a customer, you have the right to buy the equipment where you choose, and secure your own lease financing from whomever you like. Shop around. You probably price shopped the equipment, your efforts can be diminished if you don't explore options with leasing companies too.

If you ARE a vendor, you will want to speak comfortably to your clients about leasing. I will be making a "Strategies for Equipment Vendors" paper available for you to download at: *PriorityLeasing.Net/Strategies-for-Equipment-Vendors*

✔ Customers Stories

International Purchase Example: *While on business in China Kimberley Stuart of Log Barn Food Co. found the perfect freezers for her food processing company. She consulted with us, purchased the freezers and shipped them back to her Armstrong, BC plant. We arranged a deal with one of our underwriters that saw them purchase title of the equipment from her and then lease the freezers back to her business.*

Shop Around

You have the right to deal with the vendor and leasing company of your choice

6 Additional Points to consider before financing your new equipment

When you are ordering new equipment, there are a few things you should consider before placing your order to understand the "true cost" of leasing, taking out a bank loan, or paying with cash:

GST/PST
Leasing companies quote lease payments in a pre-tax environment. Basically this means they calculate the payment based on the equipment cost pre-tax. Then quote your payment pre-tax. The GST (and PST if applicable) are added to your monthly payment. A lease payment is considered a "service" in the Goods and Services world, but you are not taxed twice. Therefore, you are also spreading out the cost of the GST. Of course, GST is a flow tax so when you lease, you will get the GST on the monthly payment back.

Security / Collateral
Other assets may be needed to secure a loan, but not a lease. With leasing, the only security the lender has is the equipment itself. Other business and personal assets are not affected.

Your Credit
If you borrow to purchase equipment, how will that affect your credit? Will it take up so much of your credit line that you have less access to cash in the future?

Business Tax Write-Off
Properly structured, a lease payment is a business expense. And this expense can offset revenue, protecting net profit from business taxes. Here's an example of another "tax deductible business

6 Questions Before You Lease

Understand the "true cost" of leasing, taking out a bank loan, or paying with cash

1. GST/PST: Will you pay sales tax or will the sales tax flow through?

2. Security / Collateral: What security, if any, is required for you to complete the transaction?

3. Your Credit: How will it affect your credit?

...

expense that mimics a lease payment. In downtown Calgary, a parking spot typically rents for about $450 per month. Except for buyout options, this could easily be a lease payment. How? You are paying $450 to use an 8' x 10' slab of concrete for reasons that help you do what you do better. However, you are paying to use someone else's concrete slab and there's a cost to that. Yes you can try and figure out the cost as an "interest rate" but what does it matter? You need the spot, you have the cash flow to make the payments and you will receive more value by using it. The payment here is a tax deductible business expense, and, I'm guessing, it doesn't make sense for you to buy the whole parkade.

Cash Flow
Compared to paying cash, how will a lease affect, improve, or reduce your cash on hand to operate and build your business?

What's Next?
What will you do with the equipment at the end of the term? Will it then be time to upgrade? Will you have the option of returning the equipment, buying it out, or trading it in for a newer model? All of this should be laid out in your terms and understood by all parties prior to signing the final agreement.

4.
Business Tax Write-Off: How will the payments impact your taxable situation?

5.
Cash Flow: How will the lease payments effect your cash flow?

6.
What's Next: What happens to the equipment at the end of the lease?

3 Things to Watch Out For When You Compare Leasing Companies

1. When comparing leasing companies, make sure that you are comparing apples to apples.

As within any industry, not all leasing companies are the same. Before entering into a business relationship, it's often wise to perform at least some due diligence. Perhaps look into two or three leasing companies, or a leasing company that is a brokerage of sorts who can explore different sources and present the best options to you. This will help assure that you are working with the company, rates and terms that best suit your needs. Often your equipment vendor will be able to recommend reputable leasing companies for you to include in your selection process.

2. Fees - Watch out for "upfront" documentation fees, or end of lease "de-regulation" fees. Know what they are upfront.

It's okay to compare companies, particularly when it comes to comparative pricing. You should always make sure you're comparing apples to apples. By this I mean watch out for "upfront" documentation fees, or end of lease "de-regulation" fees. All leasing companies have fees of one kind or another. The trick is to ask what they are upfront so you can compare one company's against the other.

3. Buyout Terms - Understand the terms and details of the buyout clause before you sign anything.

Buyout options at the end of the lease are also important. What, exactly, are your options? Generally there will be several choices, such as return the equipment or trade up to new equipment, but there will also be a "buyout" clause and you need to know what that number is going to be before you sign the contract.

Finally, I would advise you to work with someone in your local area code. I'm not saying you won't get good service from the TSX Leaseco's, but if there is someone in your own backyard who will come out to see you, take the time to understand your company, and help you explore the best financial plan to secure your new equipment, that's who you should work with. They will be able to see your business, rather than just hear or read about it, and will be in a better position to understand your business requirements. A good leasing representative will know the ins-and-outs of leasing and related tax implications. Gaining insight into your business will enable the leasing agent to recommend strategies and options to tailor the lease to your unique requirements.

Bonus Equipment and Cash Flow Strategies

Visit our website at https://PriorityLeasing.Net/category/Leasing-Strategies/ for strategies that can help you maximize the value of your next equipment purchase.

Find out how much lease payments can be for your equipment

To get an idea how much monthly lease payments could be for your new equipment visit our

Quick Quote Form

We'll get back to you quickly.

Feedback

I would love to receive your feedback about this book, suggestions for future editions or any other related ideas you have. Please feel free to reach out to my via **Linkedin** at *https://www.linkedin.com/in/debsands* or by access the feedback form on our website at *https://PriorityLeasing.Net/Book-Feedback/*

To learn more visit *www.PriorityLeasing.net*

About the Author

Deb Sands is the founder and president of **Priority Leasing Inc.**, an independent Calgary based company specialized in equipment leasing, serving business clients across Western Canada for over 20 years.

She founded the company after realizing that almost anything is leasable and that purchasing is not always the best solution for a business.

Originally, Deb was inspired by Barbara Walters and pursued studies in Broadcasting at Mount Royal University. After many years of honing her skills in sales and customer service, Deb switched careers and entered the world of equipment leasing.

She is mom to two beautiful girls. Her road to relaxation includes reading and watching re-runs of Downton Abbey and vacationing in the Rockies with her daughters and husband Bob. Combining vision with integrity, leadership and 25 years of leasing experience, Deb sees herself as a member of the clients team… using equipment acquisition through leasing to ensure measured, sustainable growth.

Deb's personal philosophy is: "***When properly financed, dreams grow wings and take flight!***"

For more information connect with Deb Sands on **Linkedin** or email her at *debbie@PriorityLeasing.Net*

Deb is available for speaking and consulting engagements or to help your company plan its equipment leasing strategy.

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To Bernie Glemas, thank you for your creative input, your marketing savvy, your countless connections and above all, your patience.

What People are Saying About This Book

“A book on leasing is a great idea. The format is really good. I like the “sticky notes” on the side of the pages, a good touch that helped me quickly grasp the main points.”

Stephen Leber
Talent Acquisition Consultant

“I’m extremely impressed. You have generated a most professional leasing education tool that will be so valuable to help educate business people. When I read it, it seems like you are sitting across from me telling me this leasing story. It is a very personal tutorial. It’s really, really good.”

Larry Whitehead, President
Lasha Consulting Services Inc.

“A great guide for business people who want to understand when and why to lease, and how to take advantage of leasing to become more profitable”

Paul H Smith
Smith Bros. Floors Ltd.

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