



# Leasing Basics

## At a Glance

Did you know that a number of equipment acquisition challenges can be met by leasing? Unfortunately, because leasing is the most misunderstood acquisition option, many contractors are missing out on its benefits. This document will answer some of the most basic questions about leasing.

## A Closer Look

### What Is a Lease?

The concept of a lease is quite simple. Under a lease, the owner allows the user to use the equipment for a set period of time.

When you enter a lease agreement, John Deere Credit determines how much your equipment will be worth at the end of the lease. This amount is the purchase option amount, or what you'd pay if you decided to purchase the equipment at that time. Your monthly payments will take the amount leased down to the purchase option amount, so if you return the equipment at the end of the lease, you've paid only for its use.

John Deere Credit has offered lease products for many years, and we've seen firsthand how beneficial they can be to contractors—especially when we structure the lease to meet your specific needs.

### Types of Leases

There are essentially two kinds of leases. One kind, the operating lease, allows equipment users to deduct lease payments on their tax returns, and to take advantage of off-balance-sheet financing. The operating lease is ideal for contractors who have no intention of purchasing the equipment at the end of the lease.

The other kind of lease, the finance (or capital) lease, is for contractors who plan to own the equipment eventually. With the finance lease, you can deduct the interest portion of each payment, and also depreciate the equipment. For accounting purposes, finance leases are treated as loans.

Since lease payment deductions are generally greater than the total of deducted interest and depreciation, an operating lease generally reduces your taxes and keeps more money in your pocket.

### Saving Money with Leasing

When acquiring equipment on a lease, your initial outlay is generally lower than the down payment on an installment loan. Generally, you'll pay only the first and last month's payments or one monthly payment and a security deposit.

#### Example

	Loan	Lease
<b>Amount financed</b>	\$100,000	\$100,000
<b>Term</b>	36 months	36 months
<b>Interest rate</b>	0.0%	n/a
<b>Lease charge</b>	n/a	8.0%
<b>Purchase option</b>	n/a	\$35,000
<b>Monthly payments</b>	\$2,777.78	\$2,240.69

Example only. Interest rates and lease charges vary based on creditworthiness. Equipment depreciation deductions not included.

The difference in monthly payments is just one example of how leasing can improve your cash flow.

To determine whether a lease or loan is right for your business, consult your tax advisor or see your John Deere dealer.

### Customized Choices

Because a contractor's income, expenses, and needs change over time, John Deere Credit offers customized financial solutions. We understand the unique needs of your industry, as well as your individual business needs. That's why we can structure a lease according to your expected usage and your future plans. Customized features include:

- Fair market value purchase options.
- Stated purchase options.
- Early purchase options.
- Walk-away windows.
- Step payments.

### Leasing and Your Balance Sheet

Since operating leases do not appear as an asset or liability on your balance sheet, they are often preferred by contractors who are concerned about bonding capacity. Operating leases also improve the appearance of your ROA (return on assets) and other financial ratios.

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## A Closer Look *(continued)*

### The End of the Lease

At the end of the lease (generally 12-60 months), you have a number of options. You can choose to:

- Return the equipment.
- Purchase the equipment outright.
- Start a new lease with new equipment.
- Extend your lease.

There are a number of benefits to returning the equipment and leasing a brand-new model. It keeps your fleet up to date with the latest technology, reduces your maintenance expenditures, boosts your productivity, and keeps you from paying for equipment after it has outlived its usefulness.

### Seven Reasons Why Leasing Can Be More Beneficial than Owning

1. Leasing frees up cash and increases liquidity.
2. Leasing usually requires less money up front.
3. Monthly lease payments are generally lower than installment loan payments.
4. Leasing lets you pay for the use of the equipment instead of making a long-term commitment, so you can keep your fleet flexible to match the projects you want to pursue.
5. Leasing keeps newer equipment in your fleet, so it reduces downtime and enables you to schedule equipment replacement.
6. With an operating lease, equipment does not appear on your balance sheet as either an asset or liability, which can result in stronger financial ratios and thus help your bonding capacity.
7. In most states, instead of paying sales tax on the full purchase price, you pay only a use tax on the monthly lease payment. Depending on the length of the lease, you might pay less tax by leasing. And if you eventually exercise the purchase option, you've deferred the sales tax until the end of the term.

### A Common Misconception About Leasing

Some contractors believe that leasing is the most expensive form of financing, because, they say, at the end of the term you still have to pay the purchase option in order to own the machine.

The idea that leasing always costs more isn't true, especially when you consider all the other factors: Internal Rate of Return, the Time Value of Money, tax implications, and more. Fact is, when a lease is done properly, your overall cost can be lower than that of a loan—and much, much lower than the cost of paying cash.

### Is Leasing Right for You?

Leasing only seems complicated. And since it can be such a boon to your cash flow, it's worth checking into. John Deere Credit knows which questions to ask to determine if leasing is your best option:

- How long will you need the equipment?
- Do you want to own the machine at the end of the term?
- Any chance you'll want to buy out early?
- Are there tax, cash flow, and bonding issues you're trying to satisfy?
- Are you more concerned about the lease charge or the overall cost?
- Are you interested in transferring risk?
- Are you just looking for the lowest possible payment?

Please note that leasing isn't for everyone. It's not a cure for customers with poor credit, or for customers with no cash. Lease applications are still subject to credit approval, and in some cases an installment option might be your best option.

With all that in mind, though, the benefits of leasing are tremendous. Do yourself—and your business—a favor. Tell your John Deere dealer you'd like to know more.

## Always discuss your equipment acquisition plans with a qualified accountant.

The information in this document is intended only for your general illustration purposes, and is not offered as legal, tax, or accounting advice. This information does not consider taxes, depreciation, the half-year convention, expensing the lease payments, interest deductions, etc. Loan rates, lease charges, and residual values vary based on structure and creditworthiness. Subject to John Deere Credit approval, see dealer for details.