

EQUIPMENT LEASE OR BUY COMPARISON

Example:

- * **Equipment Cost:** \$10,000.00
 - * **Lease Term:** 36 months
 - * **End of Term Buyout:** $10\% \times (\text{Equipment Cost} = \$10,000.00) = \$1,000.00$
 - * **Corporate Tax Rate:** 38% (Average Corporate Tax Rate on Net taxable income)
 - * **GST may be refundable and PST may be exempted with PST Certificate.**
 - * **Depreciation Rate:** Year 1: $15\% / 2 = 7.5\%$ (Canada Revenue's Half Year Rule)
Year 2: 15%
Year 3: 15% Remaining Years – Declining Balance)
 - * **Annual Loss of Profit:** 10% per year for 3 years (Compound Interest on Capital)
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1) PLAN A: LEASE FINANCING:

- * **"A" Credit Funding:** (At least 5 years in Business with Strong Commercial Credit)
 - * **Equipment Cost:** \$10,000.00
 - * **Lease Rate Factor:** $\$33.05 / \$1,000.00 / \text{month} = 0.03305 / \text{month}$
 - * **Monthly Lease Payment:** $0.03305 / \text{month} \times \$10,000.00 = \$330.50 / \text{month}$
 - * **Lease Term:** 36 months
 - * **Lease Cost:** $\$330.50 / \text{month} \times 36 \text{ months} = \$ 11,898.00$
 - * **End of Term Buyout:** $10\% \times \$10,000.00 = + \underline{\$1000.00}$
 - * **Total Cost of Leasing:** = \$12,898.00
 - * **Tax Savings:** $-38\% \times \$12,898.00 = - \underline{\$4,901.24}$
 - * **Net Cost of Leasing Equipment:** $(\$12,898.00 - \$4,901.24) \quad \underline{\$7,996.76}$
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“B” Credit Funding: (At least 2 years in Business with Reasonably Sound Credit)

* Equipment Cost:		\$10,000.00
* Lease Rate Factor:	$\$39.05 / \$1,000.00 / \text{month} = 0.03905 / \text{month}$	
* Monthly Lease Payment:	$0.03905 / \text{month} \times \$10,000.00 = \$390.50 / \text{month}$	
* Lease Term:		36 months
* Lease Cost:	$\$390.50 / \text{month} \times 36 \text{ months} =$	\$14,058.00
* End of Term Buyout:	$10\% \times \$10,000.00 =$	<u>+\$1,000.00</u>
* Total Cost of Leasing:		= \$15,058.00
* <u>Tax Savings:</u>	$-38\% \times \$15,058.00 =$	<u>-\$5,722.04</u>
* <u>Net Cost of Leasing Equipment:</u>	$(\$15,058.00 - \$5,722.04)$	<u>\$9,335.96</u>

2) PLAN B: BANK FINANCING:

* Bank Interest Rate:	(Line of Credit) Prime +3% = 3.0% + 3% = 6.0% / Year	
* Equipment Cost:		\$10,000.00
* Finance Cost @ 6% per year for 3 years :	$(\$318.00 / \text{month} \times 36)$	<u>\$11,448.00</u>
* <u>Tax Expenses:</u>		
	- Depreciation Year 1: $(7.5\% \times \$10,000.00)$	\$750.00
	- Depreciation Year 2: $(15\% \times \$9,250.00)$	\$1,387.50
	- Depreciation Year 3: $(15\% \times \$7,862.50)$	\$1,179.38
	- Interest Expense:	= + <u>\$1,448.00</u>
Total Tax Expenses:		= \$4,764.88
Tax Savings:	$-38\% \times \$4,764.88$	= - \$1,810.65
Equipment Cost + Interest Expense:		= + <u>\$11,488.00</u>
Net Cost of Bank Financing:	$(\$11,448.00 - \$1,810.65)$	<u>\$9,637.35</u>

3) PLAN C: CASH PURCHASE:

(CAPITAL COST)

* Cash Purchase:	Equipment Cost:	<u>\$10,000.00</u>
* Loss of Profit at 10% per year for 3 years:	(Compound Interest)	\$3,310.00

* Tax Savings From Loss of Profit:	-38% x \$3,310.00 =	- \$1,257.80
* After Tax Net Loss of Profit:		= <u>\$2,052.20</u>
* <u>Tax Expenses:</u>		
-Depreciation Year 1:	(7.5% x \$10,000.00)	\$750.00
-Depreciation Year 2:	(15% x \$9,250.00)	\$1,387.50
-Depreciation Year 3:	(15% x \$7,862.50) +	\$1,179.38
* Total Tax Expenses:		= <u>\$3,316.88</u>
* Tax Savings:	-38% x \$3,316.88 = -	<u>\$1,260.41</u>
* Equipment Cost + After Tax Net Loss of Profit:		= + <u>\$12,052.20</u>
* Net Cost of Cash Purchase:	(\$12,052.20 - \$1,260.41)	<u>\$10,791.79</u>

4) PLAN D: CREDIT CARD PURCHASE (Visa, Mastercard, Amex Etc)

* Credit Card Purchase:	\$10,000 @ 20% + Per Year (Average Interest Rate)	
* Equipment Cost:		(\$10,000.00)
* Credit Balance @ 20% per year for 3 years: \$371.64 / month x 36)		<u>\$13,379.04</u>
* Tax Expenses:		
-Depreciation Year 1:	(7.5% x \$10,000.00)	\$750.00
-Depreciation Year 2:	(15% x \$9,250.00)	\$1,387.50
-Depreciation Year 3:	(15% x \$7,862.50)	\$1,179.38
-Interest Expense:		= + \$3,379.04
* Total Tax Expenses:		= <u>\$6,995.92</u>
* Tax Savings:	-38% x \$6,695.92	= - \$2,544.45
* Equipment Cost + Interest Expense:		= + <u>\$13,379.04</u>
* Net Cost of Credit Card Purchase:	(\$13,379.04-\$2,544.45)	<u>\$10,834.59</u>

* \$10,834.59 – only if balance is paid off in 3 years– (balance with no new purchases)
 * It may take you 25+ years to pay off the \$10,000 with minimum monthly payments!

5) SUMMARY: - THE BOTTOM LINE ON LEASING EQUIPMENT:

NET FINANCIAL COSTS:

1) PLAN A: LEASE FINANCING: “A” Funding: \$7,996.76 “B” Funding: \$9,335.96	
2) PLAN B: BANK FINANCING:	\$9,637.35
3) PLAN C: CASH PURCHASE:	<u>\$10,791.79</u>
4) PLAN D: CREDIT CARD PURCHASE:	<u>\$10,834.59</u>

*** PLAN A: LEASING IS STILL THE BEST ALTERNATIVE.**

*** The Net Lease results affected by the Tax Rates may vary with each Company.**

*** Lease Rates may Depend on Credit Rating Approval. (A, B or C Funding.)**

*** Lease Rates may Vary, and Fluctuate over time.**