

# eNB *New Brunswick's Business News* BUSINESS

David Barnett is a regular columnist for eNB Business: New Brunswick's Business News, a Transcontinental Media Specialty Publication. eNB Business is published monthly and distributed to businesses across New Brunswick free of charge. For more information, please visit [www.enbusiness.ca](http://www.enbusiness.ca)

## Let Equipment Pay for Itself Mar 3, 2007



**David Barnett**

A gentleman I know is involved in the garbage business. For years, each time he signed on a new customer, he had to invest in a new dumpster. After sharing high fives with his staff because of his sales victory, he had to fight with his banker to borrow more money. Don't you love business ironies? The more successful the sales, the more burdensome the debt. If only the dumpsters could pay for themselves over their useful life.

Well, they can. Welcome to leasing.

Most of us are familiar with leasing because of auto sales. The salesman tells us that leasing allows us to only pay for the part of the car that we consume. You pay a monthly fee for the use of the vehicle, but you're not paying to own it. This is called an operating lease, and it should be viewed the same way as renting. Often, businesses will use this type of lease when they want to have access to equipment that needs to be renewed every few years. You're not obligated to purchase the equipment at the end of the contract (although you may have the option to do so.)

The other type of lease is called a capital lease. This is debt in disguise, and it must appear on your balance sheet. The nice thing about these leases is that the equipment is the collateral for the debt. Sometimes companies that do not qualify for bank financing can enjoy leasing because the equipment remains in the name of the leasing company.

This tends to reduce their lending risk.

Now my garbage man friend is able to go out and get as many new customers as he wants. Every time he signs up a new client, he can lease a new dumpster. As long as he charges the customer more for the service than he pays on his lease, he enjoys a net-benefit on his income statement.

Leasing can be done on almost all types of equipment. Sometimes even soft costs like installation or expert setup can be included. Most leasing companies will allow you to create a single lease with equipment from multiple vendors. Just like bank financing, you can shop around for different deals on leasing. You're not limited to use the vendor's in-house service. There are also brokers who represent many leasing firms.

The other big advantage of leasing comes at tax time. When you own equipment financed with traditional debt, you enjoy large CCA write-downs in the early years even though your payments may be fixed over the term of the loan. Towards the end of the financing, your tax write offs are lower but your payments remain the same. This can create a cash-flow crunch. With leasing, your payments and tax deductions remain constant, as the payment is actually an expense. At the end of the capital lease, you will be required to make a small payment to own the equipment based on terms you agreed to when it was set up.

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