7 Important Things To Know Before Financing Equipment

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Most manufacturing and industrial businesses are familiar with equipment leasing and financing, but may not know the kinds of specific information they need to make the best financing decisions for their investments in equipment or software. Understanding the ways in which leasing fits your company's particular needs can help to build a solid business case for financing as well as determine which financing option to choose. This decision requires careful assessment of your financial, operational and other situational needs, in addition to knowledge of the many benefits leasing provides.

The following is a checklist of important issues to consider when making decisions about leasing equipment:

1. Whether to buy or lease. First and foremost, the most important thing to know before financing equipment is that leasing is usually more advantageous to your business than buying equipment outright. Equipment finance industry research shows that in 2013, 55 percent of the projected $1.3 trillion total U.S. investment in equipment and software, or $725 billion, is expected to be financed. The most recent research available shows that in 2011, 72 percent of firms used at least one form of financing. These statistics bear out that organizations agree with the adage, "it is more important to have and use equipment than it is to own it."

2. Cash flow/budget requirements. Financed equipment can generate income for your business that far exceeds the cost of your monthly payment. Financing also enables you to stretch your budget to obtain additional equipment you couldn't have afforded otherwise because it's more feasible for most businesses to make a monthly payment than to make a large lump sum cash outlay. In addition, 100 percent financing is available so that no down payment is required.

If your business experiences seasonal fluctuations, or has a project or new line ramping up that requires equipment that will not generate revenue immediately or will only generate it seasonally, there are lease terms available that allow for these circumstances. Lower initial payments or deferred payments are among lease term options. The important thing is to assess how long it will be before revenue will be generated from using the equipment to offset the finance payments.

3. Capital expenditure plans. Most businesses, particularly in this current economic

climate, have reduced or limited budgets for business investment. If your company is like the majority of those facing unlimited wants and limited resources, leasing equipment allows capital budgets to be used for other business and operational purposes.

4. Equipment obsolescence risk. Technology changes and innovations develop rapidly. Chances are that the software and equipment you purchased two years ago are already outdated. Financing provides a hedge against equipment obsolescence through options to either purchase the equipment, trade it in for new equipment or return it outright at the end of the lease term. Taking advantage of options to avoid obsolescence is critical to maintaining a competitive edge.

5. Credit availability. Access to credit is a key driver of business growth. Financing equipment preserves your lines of credit and enables you to save your bank borrowing capacity—important considerations to accommodate both planned and unforeseen future business expenditures your company may incur. Financing also has one-day credit approvals, whereas banks can take days or even weeks. This speed-of-access to equipment is another strategic advantage for your market position.

6. Tax Benefits. Tax code provisions continue to provide incentives for businesses to invest in equipment. For 2013, the IRS Section 179 Deduction threshold for total amount of equipment that can be purchased is now $2 million, and you can deduct up to $500,000 of equipment cost.

7. Standard Finance Plans. With a clearer picture of your business situation and equipment needs determined from this checklist, you are ready to think about the type of finance plan for the equipment you are acquiring. The following are some of the most commonly selected ones.

Fair Market Value offers the most options both during and at the end of the term, so this is suitable if you are concerned about obsolescence or want a small security deposit and a relatively low monthly payment. At the end of the term, you have three options: extend the term of the agreement, return the equipment, or buy the equipment at its fair market value.

10% Security Deposit also offers a lower monthly payment. It is especially attractive if you can afford to pay a security deposit of 10 percent of the finance amount at the beginning of the agreement. End-of-term options still apply. The deposit can be used to extend the agreement or you can return the equipment and request a refund of the deposit.

10% Purchase Option offers a fixed purchase option at the end of the term. Upon final payment, you can continue to finance the equipment, return the equipment, or buy it at 10 percent of the original equipment cost.

$1.00 Buy Out is the recommended option if you are fairly certain you will want to purchase the equipment at the end of the agreement. Once the term expires, the equipment is simply purchased for $1.

This summary of topics to consider is key to the equipment financing decision-making process. Finding a full-service equipment financing company that can help you address these issues and answer your questions will help ensure that you get the right equipment at the best possible terms for your business.

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