

To Buy or To Lease?

The retail vs. corporate leasing debate

By Dennis Cavagnaro

To lease or not to lease? This is the question for those businesses that rely on motor vehicles to successfully deliver products and services.

There are a couple of ways to acquire vehicles. The right choice depends on your financial and vehicle needs.

Purchasing a vehicle for business purposes may be in the best interest of the company. If there are excess cash reserves, purchasing can be prudent, as it immediately becomes, from a tax standpoint, an asset on your books. In addition, while you may pay more each month than you would with a lease, you are paying less in over all interest and carrying charges. Again, if liquid assets give your company the ability to go this route, it may be the best option.

However, if your business chooses this route, it is important to remember that the care and operation of the vehicle is in the hands of your employees, and that fleet vehicles require routine maintenance and continued management. While a properly maintained vehicle can give your company years of service, and lead to savings in the long run, the time and costs associated with regular maintenance and management can be hard to budget and maintain.

If cash flow is a consideration, leasing may be a better option. However, don't make the mistake of confusing a consumer retail lease with a corporate lease. While each lease operates on the same premise, they have entirely different goals. The retail lease is structured to accommodate home-consumer use patterns and tends to be packaged with preset rates. In addition, there are often strict mileage quotas and no fleet maintenance options.

On the other hand, corporate leasing companies design leases for business purposes and have more options and flexibility. Corporate leasing companies also have access to a variety of vehicles.

For business owners, corporate leasing offers three benefits: budget, convenience and safety.

Lease vehicles have tax and off balance-sheet advantages. With a closed-end corporate lease you have many, in some cases unlimited, mileage options that can cover any business need.

The convenience factor is fleet maintenance. A corporate lease allows a lessee to wipe his/her hands clean from worry about regular maintenance, insurance claims, etc. All bills and purchase orders are received, and all checks issued, through the lessor. The

lessee continues to pay one predetermined, monthly fee.

Safety and dependability are also important. As a business, it is in your best interest to exercise some control over the car your employee drives. If something should happen to the car, a corporate lease can provide a replacement while the car is being repaired. Additionally, handling the insurance of the car and the driver can save a business money in the event of an accident.

Companies should consider whether a lease is open-ended or closed-ended. Open-ended leases were once considered standard for businesses. The company leasing the cars, not the dealership, takes all the financial risks. In addition, mileage per year tends to be higher. Also, the company is responsible for paying the difference between the lease-end value and the actual market value at the end of the lease, which can be pricey. Closed-end leases are becoming more common in commercial leases. This lease allows the

company to return the vehicle at the end of the lease without additional financial responsibility, not including overage on mileage.

Shopping around for the best option is equally as important. Make sure to do your homework. Familiarize yourself with the purchase and leasing options available to you. Consider the ancillary services that would most benefit your company: fuel cards, roadside assistance, maintenance and service, and so forth. When addressing transportation needs, remember to explore all the available options. ■



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