EQUIPMENT LEASE OR BUY COMPARISON

EQUIPMENT LEASE FINANCING

Example:

*** Equipment Cost: $10,000.00**
*** Lease Term: 36 months**
*** End of Term Buyout: 10% x (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)**

THE BOTTOM LINE OF LEASING EQUIPMENT:

NET FINANCIAL COSTS OF EQUIPMENT:

EQUIPMENT CAPITAL COST:		**$10,000.00**
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**:**		**$10,791.79**
4) PLAN D: CREDIT CARD PURCHASE		**$10,834.59**

PLAN A: LEASING IS THE BEST ALTERNATIVE!

(If your tax rate is greater than 38%, then your tax savings is even greater!)

EQUIPMENT LEASE OR BUY COMPARISON

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 / month = 0.03305 / month**	
*** Monthly Lease Payment:**	**0.03305 / month x $10,000.00= $330.50 / month**	
*** Lease Term:**		**36 months**
*** Lease Cost:**	**$330.50 / month x 36 months = $ 11,898.00**	
*** End of Term Buyout:**	**10% x $10,000.00 =**	**+ $1000.00**
*** Total Cost of Leasing:**	**=**	**$12,898.00**
*** Tax Savings:**	**-38% x $12,898.00 =**	**- $4,901.24**
*** Net Cost of Leasing Equipment:**	**($12,898.00 - $4,901.24)**	**$7,996.76**

"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 / month = 0.03905 / month**	
*** Monthly Lease Payment:**	**0.03905 / month x $10,000.00 = $390.50 / month**	
*** Lease Term:**		**36 months**
*** Lease Cost:**	**$390.50 / month x 36 months =**	**$14,058.00**
*** End of Term Buyout:**	**10% x $10,000.00 =**	**+$1,000.00**
*** Total Cost of Leasing:**	**=**	**$15,058.00**
*** Tax Savings:**	**-38% x %15,058.00 =**	**- $5,722.04**
*** Net Cost of Leasing Equipment:**	**($15,058.00 - $5,722.04)**	**$9,335.96**

EQUIPMENT LEASE OR BUY COMPARISON

2) PLAN B: BANK FINANCING:

*** Bank Interest Rate:**	**(Line of Credit) Prime +5% = 4.0% + 5% = 9.0% / Year**	
*** Equipment Cost:**		**$10,000.00**
*** Finance Cost @ 9% per year for 3 years : ($318.00 / month x 36)**		**$11,448.00**
*** 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:		**= + $1,448.00**
Total Tax Expenses:		**= $4,764.88**
Tax Savings:	**-38% x $4,764.88**	**= - $1,810.65**
Equipment Cost + Interest Expense:		**= +$11,488.00**
Net Cost of Bank Financing:	**($11,448.00 - $$1,810.65)**	**$9,637.35**

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3) PLAN C: CASH PURCHASE: (CAPITAL COST)

* **Cash Purchase:**	**Equipment Cost:**	**$10,000.00**
* **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:**		**= $2,052.20**
* 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
* **Total Tax Expenses**:		= **$3,316.88**
* **Tax Savings**:	-38% x $3,316.88 = -	**$1,260.41**
*** Equipment Cost + After Tax Net Loss of Profit**:		= + **$12,052.20**
*** Net Cost of Cash Purchase:**	($12,052.20 - $1,260.41)	**$10,791.79**

EQUIPMENT LEASE OR BUY COMPARISON

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)		**$13,379.04**
*** 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:**		**= $6,995.92**
*** Tax Savings:**	**-38% x $6,695.92**	**= - $2,544.45**
*** Equipment Cost + Interest Expense:**		**= +$13,379.04**
*** Net Cost of Credit Card Purchase: ($13,379.04-$2,544.45)**		**$10,834.59**

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* $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!

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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:	**$10,791.79**
4) PLAN D: CREDIT CARD PURCHASE:	**$10,834.59**

*** 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.**