Lease vs Loan

Lease vs. Loan

Leases do not require down payments and allows financing of 100% of the equipment cost. The lessee normally has the option to purchase the equipment at the end of the lease for its remaining value.	Loans usually require a down payment of 10 to 20% from the end user when making an equipment acquisition. The loan finances the remaining amount of the equipment cost.
The leased equipment is typically all that is required as collateral.	Loans often will require the borrower to pledge other, if not all of their assets as collateral.
The lessor bears all of the risk for the obsolescence of the equipment, since the end user has no obligation to purchase the equipment at the end of the lease.	The end user assumes all of the risk of obsolescence on the equipment as the owner.
Leases can be structured so that the lessee may be able to claim the entire lease payment as a tax-deductible expense. Since the equipment write-off is based on the lease term, which can be shorter than the IRS depreciation schedules, the deductible expense can be greater each year.	Loans may allow for a tax deduction for a portion of the loan payment as interest, and for the borrower to depreciate the equipment per IRS depreciation schedules. If the borrower is in an Alternative Minimum Tax (AMT) position, the depreciation is not an allowable deduction.
Leases on equipment that qualify as operating leases do not appear on the balance sheet, which can improve financial ratios.	The Financial Accounting Standards Board (FASB) requires all equipment that is owned to appear on the balance sheet as an asset with a corresponding liability.
More of the cash flow of a lease, especially the option to purchase the equipment, occurs in the future with cheaper dollars due to inflation.	Loans require a larger portion of the financial obligation to be paid in today's more expensive dollars.