



C E M B R U S  
C A P I T A L

## **BENEFITS OF LEASING**

### Tax Benefits

Operating Leases that qualify as Tax Leases enable deductible lease payments that can be expensed for federal tax purposes. **This means you can write off 100% of your lease payments for that tax year.** In addition, Tax Lease payments are not included as preference items under the Alternative Minimum Tax. This minimizes tax attributable to AMT for additional equipment purchases. Leases don't count against your earnings so your taxes can be lower.

### Equipment Obsolescence Avoidance

Leasing prevents equipment obsolescence by transferring a portion of equipment obsolescence risk away from the lessee. Leases also allow you to upgrade or replace equipment during the lease term, enabling greater user flexibility. Remember, **equipment usage enables profits. Actual ownership of equipment does not.** Leasing allows you to match the useful life of the equipment with the term of the lease, thus maximizing productivity and profits.

### Less Restrictive Form of Financing

Leasing provides more freedom and flexibility than straight loans. Traditional loans tie up future financing options with restrictive covenants. In addition, **leases are typically secured by the underlying assets on the equipment schedule. Banks usually secure corporate borrowing against inventory and accounts receivable.** They also cross collateralize with the borrower's property and equipment. That means your whole business secures that particular loan. Leasing puts you at less risk.

### Cash Management

**Equipment leasing usually offers a lower monthly payment schedule that can be matched to your cash inflows or operating budget.** Down payments (with one or two month deposits) are also typically lower. Term financing, on the other hand, usually requires a down payment of 10% to 20%. Since leases are fixed, they offer more effective cash forecasting opportunities. Auto leases, for example, allow you to circumvent capital budget constraints on cash purchases.

### Diversification of Financing Sources

Equipment leasing relationships add debt funding and provide a **cheaper form of capital when compared to raising equity.** Capital resource diversification increases your borrowing capacity when you need it. This added financing source is also considered an insurance policy against economic downturns and subsequent tightening of bank credit.

### Enhanced Financial Reporting

Leases enable "off-balance sheet" financing, where assets and liabilities are not recorded on the balance sheet but are referenced in financial statement footnotes. Rental payments are expensed on the company's income statement, for example, providing enhanced financial ratios related to leverage and return on assets. The return on assets ratio is increased because the asset base is decreased and reported earnings are increased. In addition, during the early years of an Operating Lease, the expense is less than the depreciation and interest expense you would incur with a capital lease. This helps **increase your overall reported earnings.** Operating Leases also remove the negative accounting impact of replacing outdated equipment that has not been fully depreciated.

**Equipment Finance • Working Capital • Property Finance**

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