5 Things To Know Before Signing Your Next Equipment Lease

Helpful Information To Prepare You For The Equipment Leasing Process

Whitepaper Brought to You By Balboa Capital
Whether you are a newly launched small business or a reputable, well-established company, equipment leasing is a sound financial option that can help promote your business’s growth. Among several other benefits, lease financing enables your business to stay competitive while conserving your working capital and retaining your cash flow.

However, not every equipment lease is the same. There are a number of factors to take into account when choosing a lease that best suits your business and equipment needs. From the type of equipment you will acquire to the finance company you work with, it is important to understand the things that may impact your lease financing decisions.

This Balboa Capital whitepaper will help you identify – step by step – key items to consider before signing your next business equipment lease.
Because your financing needs will vary depending on the type of equipment your business requires, it’s important to fully understand the equipment in order to make the most of your lease. The level of investment for a lease depends heavily on the type of equipment and its expected usage and lifecycle.

**Consider Equipment Lifecycles**

If your business is in need of technology equipment with a shorter lifecycle, such as computers, you might want to consider a shorter lease term so that you can upgrade when new equipment comes on the market. On the other hand, if you’re leasing office furniture, a longer lease term is probably more advantageous. That’s because office desks, chairs and light fixtures don’t need to be replaced often.

**Equipment Acquisition is a Strategic Move**

In addition to understanding your business equipment needs, it’s important to define your leasing goals. What do you expect your business to accomplish when you acquire new equipment? Whether it’s to increase productivity, save money or catch up with your competitors, realizing your objectives is paramount to business success.

Your equipment needs could be drastically different depending on what you hope to achieve, so it’s important to provide as much information as possible to your equipment leasing company. Depending on its capabilities and industries of expertise, your equipment leasing company can steer you in the right direction and provide valuable insight.
Choose The Right Equipment Leasing Company

Be sure to choose a leasing company that has experience in your industry and that specializes in the equipment you would like to acquire. Additionally, the company should be aware of potential industry changes and/or challenges that can impact your business, plus be able to recommend the most appropriate solution(s) to address them. The leasing company you work with should act as a partner in your business success and consult with you to identify the best financing options.

Choosing the leasing company that’s right for you depends on its account representatives, as well. It is best for your business to work with a leasing company that provides you with a dedicated and experienced account representative who will guide you through the lease process... from start to finish. This representative should know your business, your growth goals, and provide expertise in your industry.

Flexibility is Key
Lease options and customization vary based on the finance programs that equipment leasing companies offer. Your lease can be designed around your specific business needs, such as seasonality, cash flow and budget fluctuations. For example, if your company experiences a dip in business during winter, a leasing company may offer a lease program with lower payments for these slow months, and slightly higher payments throughout the rest of the year.
Give Your Credit A Health Checkup

When applying for a business equipment lease, your personal and business credit may be evaluated, so it’s important to be prepared to provide both during the application process. Prior to applying for a business equipment lease, be sure to review your business credit profile to identify and address any inaccuracies or inconsistencies. Confirm that your payment history is correct and remove any accounts that are being falsely reported. You should also make sure that all trade activities and relationships are represented on your business credit profile.

A Good Credit Score is Required
Most equipment leasing companies require strong business credit or Paydex score to obtain an equipment lease. Your Paydex score is Dun & Bradstreet’s unique dollar-weighted numerical indicator of how a firm paid its bills over the past year, based on trade experiences report to D&B by various vendors.

Your Personal Credit Score Also Plays a Role
In addition to making sure that your business credit is in good standing, it’s important to know your personal credit rating. It’s not uncommon for some leasing companies to review your personal loans, credit score and outstanding payments to determine if a business lease should be extended to you. Your personal credit should reflect a successful borrowing and timely payment history; therefore, it is important to confirm that this information is being reflected accurately.

While your personal financial information might not be needed for smaller lease transactions, it will be required for larger ones. Be prepared to show tax returns and financial statements from several years back.
Leasing has different implications on your balance sheet than a business loan. When you acquire a traditional loan from a bank to make purchases for your business, the loan is considered a debt on your balance sheet. However, when you choose to lease your equipment purchases, the lease can actually be reflected as an operating expense on your income statement. This can be very helpful when it comes time to do your taxes, not to mention make your business’ balance sheet look more attractive throughout the year.

**Equipment Leasing and Balance Sheets**

Because an operating lease is accounted for on your income statement, it does not impact your financial statements or debt-to-worth ratios that can ultimately affect your business credit. With this type of lease, an asset or liability is not created on the balance sheet, and there is no depreciation taken because the lessee does not have ownership of the equipment. Therefore, an operating lease typically does not have the negative effect on your balance sheet that a loan or debt would.

Next, equipment leasing can dramatically reduce your operating expenses, which means less stress and worry for you and your employees. Buying business equipment requires 100% of the purchase price, and this cash outlay can make a huge dent in your bottom line.

Today’s economy is uncertain to say the least, and the costs associated with running a business are continuing to increase, so leasing is an excellent way to help you save money, improve productivity and keep your company in good financial standing.
Leasing business equipment can provide your company with substantial tax advantages that you can’t achieve when you pay cash, or finance through a traditional bank. There are major tax benefits to financing equipment depending on the type of lease you decide to choose.

Non-Tax Capital Lease
The main benefit of this type of lease is that it can take full advantage of the Section 179 Deduction. Under this tax code provision, the Federal Government gives small businesses the ability to write off portions of the purchase price of qualified new and used business equipment that is placed into service in the given tax year. The Section 179 Deduction helps businesses significantly lower the true cost of equipment ownership.

Tax Lease (Operating Lease)
With a tax lease such as a Fair Market Value lease, the lessor retains ownership of the equipment, and the lessee can expense the monthly lease payments in the period they are paid as a general operating expense. In most cases, the lease payment is fully deductible.

It is important to consult your tax advisor to determine the full tax implications of leasing equipment for your business.
With the necessary steps in place, obtaining the right equipment lease for your business is possible. The more you understand your business needs and a leasing company’s experience and capabilities, the better informed you will be to make the best equipment financing decisions.

Business owners like you are facing numerous challenges and need to be cost-conscious when it comes to business spending. So, when it comes time to select a finance company, make sure you choose one that offers competitive financing fees, and that understands your unique business equipment needs and market.

**About Balboa Capital**

Established in 1988, Balboa Capital is one of the largest privately-held independent finance companies in the United States that specializes in franchise financing, equipment leasing, small business loan products, and equipment vendor financing.

To learn more about Balboa Capital, visit [http://www.balboacapital.com](http://www.balboacapital.com).