Leasing Vis a Vis Buying Survey Equipment

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BY DEFINITION a lease is a contract between an owner (the lessor) and another party (the lessee) that conveys to the lessee the right to use the lessor's property in return for a consideration - usually installment payments including principal and interest, and the option of buying the property for a nominal sum when the lease expires.

The following comparison uses actual figures for purchasing a total station with bank financing and for leasing the same piece of equipment for 54 months with a buy-out option. Both the outright purchase and the lease are based on a purchase price of $18,200 in August 1986. (The price as of October 1988 is $22,500 due to currency changes.) The company's year end is August 31 and the first payment is made on August 1, 1986.

Lease: 54 months at $593.37/mo.
buy-out option for $3,132.75 at the end of 48 months.

Purchase: amortized for 4 years at $493.78/mo.
principal and interest included in payments
interest rate 14%/year.

LEASE

Year	Lease Payment	PST	Total Paid (deductible)	
1986 (1 mo.)	554.55	38.82 (7%)	593.37	
1987 (12 mo.)	6,654.60	465.84 (7%)	7,120.44	
1988 (5 mo.)	2,772.75	194.10 (7%)	2,966.85	
1988 (7 mo.)	3,881.85	310.52 (8%)	4,192,37	
1989 (12 mo.)	6,654.60	532.32 (8%)	7,186.92	
1990 (11 mo.)	6,100.05	487.96 (8%)	6,588.01	
Total at 48 months			28,647.96	
			+3,132.75	(Buy-out*)
			250.62	(PST 8%)
		TOTAL COST	$32,031.33	

* Please note that when you exercise the buy-out option you are taking the equipment in as a capital asset at a value of $3,132.75 plus Provincial Sales Tax.

PURCHASE

* CCA Expense	Interest	Total Expense (deductible)
2,730.00	114.61	2,844.61
4,641.00	1,375.32	6,016.32
3,248.70	1,375.32	4,624.02
2,274.09	1,375.32	3,649.41
1,591.86	1,260.71	2,852.57
	5,501.28	19,986.93

+ 18,200.00 (Purchase price)
+ 1,274.00 (PST at 7%)

TOTAL COST $24,975.28

Total Cost of Lease	32,031.33
Total Cost of Purchase	24,975.28
Difference Between Lease & Purchase	7,056.05

* A Total Station can be treated as computer equipment, Class 10 (CCA 30%) with half the normal CCA the year of purchase.

Although the cost of leasing is $7,056.05 more than purchasing the equipment with bank financing, a tax problem will surface if the buy-out price is lower than the fair market value of the equipment at the time the option is exercised. (Some equipment may increase in value over the period of time you lease it; other equipment may become worthless. Presently I have a valueless HP1800 in my equipment room gathering dust that I don't have the heart to throw out. On the other hand, my Wilde T1A is worth more now than the $850.00 I paid for it in 1969.)

When the buy-out price is substantially below the fair market value, Revenue Canada may treat the lease agreement as a purchase agreement instead. The lease payments would then be treated as capital payments, so they would not be deductible as an expense. Revenue Canada would make an adjustment for each of the four years, allowing for CCA plus interest charged at leasing company rates. These adjustments are prepared in table form (adding to or subtracting from your taxable income for each year) and Revenue Canada will recalculate the tax adjustments for you.

Recommendations

From the foregoing it is apparent that leasing is not nearly so economical as buying. However, if purchasing is not feasible, leasing is far preferable to not having the equipment at all.

If you are currently leasing, before you exercise the buy-out option, check with the dealer to determine the current market value of the equipment. Instead of buying at that point, it may be prudent to continue leasing until the equipment is deemed valueless. •