Buying vs. leasing
The choice isn't always clear

Trying to determine whether you should buy or lease, well, *anything*, is complicated. There are many tax, financial and practical issues to consider. The decision also depends in part on the type of asset, so let's consider two prime concerns for business owners: office space and equipment.

Surveying your space

For many companies, there comes a time when owners must decide whether to renew a lease, move on to a different one or buy new (or pre-existing) space.

To purchase office space is clearly a big step. But owning your own building can give you flexibility and tax advantages a lease can't offer. For instance, you have more control over how to configure and use the space, you can sublet some if you choose, and you can maintain it as you wish. You'll also benefit from mortgage interest and depreciation deductions at tax time.

Naturally, there are risks to ownership. For one, you won't be able to easily pick up and move on. And if you're structured as a flow-through entity, you'll need to decide how the owners will share the cost of buying and maintaining the building. Keep in mind that the building need not be owned in the same proportion as the business itself.

There are other matters to consider as well. You'll need to delegate responsibility for arranging and overseeing activities such as exterior maintenance, cleaning, and paying taxes and insurance. Plus, if you decide to sublet some of your space, you'll need to wear one more hat — that of a landlord.

Of course, as you may well know from doing it for a number of years, leasing business space has its downsides, too. Perhaps you've dealt with a particularly unresponsive landlord or property management company. You may also have less freedom to change or rearrange space — not to mention ever-increasing rent and loss of mortgage interest and depreciation tax deductions. If you decide to move, though, it's easier to leave a rented office than to sell one you own.

Ultimately, it's a question of net present values. Will the present value of the capital appreciation you ultimately gain when the property is sold be greater than the current cash flow advantage you'd likely have under a lease?

Considering your equipment

The buy vs. lease question also comes into play with equipment. Depending on the type of work you do, it may not be quite as big of a decision. Yet it's still important.

Leasing equipment does offer some tax advantages. Doing so generally allows you to deduct monthly payments from your taxable income, while you may have to depreciate the cost of equipment you bought (if you don't qualify for the initial write-off under the Section 179 expensing election).

Leasing also may be the better option if you have a lot of technologically advanced equipment that will probably become obsolete in a few years. Under a lease, you can simply return the equipment when the term is up. If, however, the equipment is likely to still be serviceable for several years after it's paid off, buying may be more cost-effective.

Also think about where you see your company going in the near future. If you're planning to expand, go paperless, merge with another business, or make any changes that will affect the equipment you require, factor those plans into your decision-making process.

Weighing the pros and cons

When it comes to the buy vs. lease conundrum, there aren’t many clear answers. Ask your CPA for help weighing the pros and cons of any purchase-or-lease decisions you’re facing. Details and a keen eye for the future matter greatly in making the right choice.