Is It Right For You?

Of all the facilities in an engineering laboratory, test equipment almost invariably ranks as the top capital equipment expenditure. Regardless of the number of instruments you have, there always seems to be a need for more – to perform specialized tests, increase test speed, or meet a particularly stringent test specification. To satisfy this seemingly unquenchable need for instruments, you can buy, rent, or lease them, depending on the specific nature of your needs. You may already rent test equipment to meet short-term requirements or to fill the gaps between capital equipment budget cycles. Renting is very cost-effective for delivering the right technical solution for a short period (usually 12 months or less) because you pay on a month-by-month basis, and simply return the instruments when you no longer need them. However, when the equipment is required for 12 to 36 months, operating leasing is a compelling alternative to an outright purchase. Operating leasing can provide unique tax advantages, allow you to utilize the most advanced equipment, and lessen the cost burden of populating your test lab. It can also let you obtain all of the test equipment you need immediately, at only a fraction of the cost of buying it.

"Operating Leasing can provide unique tax advantages, allow you to utilize the most advanced equipment, and lessen the cost burden of populating your test lab."

Table 1-Operating lease advantages vs. purchasing

Operating Lease	Purchasing
Payments are treated as business expenses and deductible when paid	Equipment is depreciated over its life
Total of monthly payments will be less than the original cost of the equipment.	Full equipment value must be financed at purchase, lowering borrowing ability
Equipment does not appear on balance sheet as assets. Increases return on net assets (RONA)	Purchase price must appear on balance sheet
Asset's financial life equals its useful life because lease payments end when product is returned.	Depreciated over useful life whether utilized or not
Idle assets are reduced. Purchase decision delayed until technology is proven and long-term needs are known	Virtually no flexibility after purchase is made. If the technical requirements change, asset sits idle
Risk of obsolescence assumed by leaser	Purchaser assumes risk of obsolescence

Leases defined

Generally accepted accounting practices defines two classes of leases: finance and operating. When you choose a finance lease (also called a capital lease), you simply agree to pay the leaser (the leasing company) a fixed number of payments, and purchase the equipment after the last payment for either 1€ or 10% of its original cost. Instead of buying the equipment at the end of a finance lease, you can also return it, but this makes little sense because you have already paid for nearly all of it. For accounting purposes, all finance leases are treated as asset purchases, which means you must include them on the balance sheet and depreciate the equipment over its lifetime.

If you lease your car, you already have experience with an operating lease. Like the finance lease, it is structured with a fixed number of payments. However, at the end of the lease you have the option to purchase the equipment for its fair market value (FMV). FMV can be determined either with a fixed equity schedule at the inception of the lease or negotiated at the end of the lease.

One important difference is that Electro Rent allows the FMV purchase option to be exercised any time after 12 months regardless of the original term of the transaction. If capital funds do become available, the operating lease can be terminated through the exercise of the purchase option.

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TEST EQUIPMENT OPERATING LEASING

Leasing Advantages

Operating lease payments for a given instrument are generally much lower than they would be for a finance lease because you are paying only for use of the equipment, and the leaser is responsible for reclaiming its residual value by selling it or leasing it to another customer. At lease end, you can simply return the equipment, or you can purchase it for the amount of FMV. As you can see from the comparison between an operating lease and an outright purchase (Table 1), the operating lease has significant benefits from a financial perspective. It also lets you satisfy your measurement needs immediately without the massive upfront costs of an outright purchase.

A classic example

Let's look at an example that is typical of the situation of many companies (Table 2). You need three spectrum analyzers in the initial stages of a development program. The list price of each one is 50,000€, for a total of 150,000€. You choose to lease the analyzers for 24 months at a cost of 1,100€ each per month. The total monthly fee is 3,300€. At the end of the 24-month lease, you determine that you really only need one of the analyzers in the future, so you return the other two. Your cost for leasing the three analyzers over 24 months is 79,200€.

If you bought one of the analyzers at lease end, you would pay 34,160€, for a total cash outlay of 113,360€. Since you lease, the actual cost is reduced because the payments are spread over 24 months.

In addition, the lease payments are treated as deductible business expenses, so at the current 35% tax rate, the tax savings alone would reduce the lease payments from 79,200€ to 51,480€. This in turn reduces the total cost from 113,360€ to 85,640€. This is a significant savings over the 150,000€ initial cost of the three analyzers. In addition, since you do not really need the additional analyzers, your benefit is increased since they are not sitting idle. If you bought the instruments, you would still own the three analyzers after 24 months, although they might not be needed. In short, leasing can be a verifiable way to reduce costs without sacrificing test capabilities, producing a demonstrable benefit financially as well as subjectively.

Electro Rent has the answers

The best way to determine if operating leasing is right for you is to contact Electro Rent. Test and measurement is our business, and we have solved the test equipment acquisition problems for thousands of customers. From renting to leasing and used equipment sales, we have a solution based on your unique needs. We offer operating lease programs from 12 to 36 months, the option to purchase equipment after 12 months (regardless of the lease term), as well as FMV or equity accrual purchase options, and used equipment leasing. Electro Rent is your single source for leasing new equipment from leading manufacturers such as Agilent, Tektronix, Anritsu, Rohde & Schwarz and many other manufacturers. Call us today.

Table 2-A typical purchase vs. lease example

	Analyzer 1	Analyzer 2	Analyzer 3	Total
Purchase cost new	50,000€	50,000€	50,000€	**150,000€**
Total lease payments	26,400€	26,400€	26,400€	79,200€
Tax benefit of lease payments at 35% tax** rate	(9,240€)	(9,240€)	(9,240€)	(27,720€)
After tax** leasing cost	17,160€	17,160€	17,160€	51,480€
Purchase option cost	34,160€	0	0	34,160€
Total lease and buyout cost	51,320€	17,160€	17,160€	**85,640€**

*Total cash outlay for the use of three analyzers for 24 months and then purchase of one of the analyzers is 85,640€.
**Corporate tax rates vary by country. This is merely an example.

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