

APRIL 2004

# Benefits of Leasing

- **Tax treatment.** The IRS does not consider an operating lease to be a purchase, but rather a tax-deductible overhead expense. Lease payments can be deducted from corporate income.
- **Balance sheet management.** Because an operating lease is not considered a long-term debt or liability, it does not appear as debt on the company's financial statement, thus making the company more attractive to traditional lenders.
- **100 percent financing.** With leasing, there is little money down; perhaps only the first and last month's payment are due at the time of the lease. Since a lease does not require a down payment, it is equivalent to 100 percent financing. That means the customer has more money to invest in revenue-generating activities.
- **Immediate write-off of the dollars spent.** Leasing payments are treated as expenses on a company's balance sheet; therefore, equipment does not have to be depreciated over five to seven years.
- **Flexibility.** As a business grows and its needs change, it can add or upgrade at any point during the lease term through add-on or master leases. Customers also have the option to include installations, maintenance and other services, if needed.
- **Customized solutions.** Companies can customize a program to address their needs and requirements – cash flow, budget, transaction structure, cyclical fluctuations, etc. Some leases allow the lessee, for example, to miss one or more payments without a penalty, an important feature for seasonal businesses.
- **Asset management.** A lease provides the use of equipment for specific periods of time at fixed payments. The Lessor assumes and manages the risk of equipment ownership. At the end of the lease, the Lessor is responsible for the disposition of the asset.
- **Upgraded technology.** If the nature of the customers' industry demands that it have the latest technology, a short-term operation lease can help. The risk of getting caught with obsolete equipment is lower because the customer can upgrade or add equipment to meet changing needs.
- **Speed.** The Leasing Company can approve a customer's application within one or two days.
- **Improved cash forecasting.** By leasing equipment, the customer knows the amount and number of lease payments over the life of the leasing period.
- **Flexible end of term options.** There are several options for disposing of equipment after the lease term ends, including returning the equipment, renewing the lease or purchasing the equipment.
- **Tax benefits.** The Lessor often passes the tax benefits of ownership on to the lessee in the form of lower monthly payments.
- **Improved earnings.** Operating lease accounting provides a lower cost than a capital lease in the early years of a lease.

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