your bottom line

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To lease, or not to lease

A growing number of professional photographers are contemplating leasing as an alternative to buying photographic equipment. Unfortunately, many photographers, like other businessmen, know very little about the pros and cons of leasing. It's not for everyone and what you don't know about leasing can hurt you. What is a lease, how do you secure one, and when is leasing to your advantage?

Earlier this year, a photographer friend nearly suffered financial disaster because he made some mistaken assumptions about leasing. Shortly after my friend decided to open a one-hour lab and studio combination, he discovered his equipment costs were going to be approximately $80,000, in addition to his new studio's purchase price and renovation costs.

He chose to lease the equipment, and secure a bank loan to purchase the building and begin renovations. Initially, all went well. The loan was approved, the building was purchased, and renovations began. However, thinking that there would be no problem in obtaining a lease, my friend ordered the $80,000 worth of equipment from the manufacturer before he obtained a lease from a leasing company.

He assumed that securing a lease would be no problem because he thought getting a lease wasn't at all like getting a bank loan and therefore approval should be virtually automatic. Wrong! One leasing company after another turned him down for various reasons, none of which had anything to do with his credit.

Although he had impeccable credit standing and a co-signer, he soon discovered that leasing companies base their approval decisions partly upon their own perception of the potential profitability of the applicant's company. They are especially hesitant to deal with totally new businesses. Fortunately, the fourth company my friend applied to approved a lease, the equipment was delivered, and his business turned out to be a success. But it could have been a total disaster.

Many photographers believe that getting a lease is simple because you aren't actually purchasing the equipment. It's easy to develop this misunderstanding, because the advertising placed by leasing companies makes it seem as if all you have to do is sign the proper papers, make the first payment, and the product is yours. Establishing a lease, however, is much more complex.

First of all, most leasing companies specialize in particular product categories. Because they usually do not stock photographic products, they must purchase the product for you. Next, many leasing companies have minimum dollar requirements. Some will not write leases for less than $3,000, while others prefer the $20,000 to $50,000 range. Because most leasing companies do not fund their own leases, they send your application to a participating bank for approval. Potential lessees often find that getting approved by both the leasing company and the bank can be quite difficult.

The bank will probably never meet you—you are not one of its regular customers—and bank officials have only the information provided on your application to guide them in making their decision. Because collecting late payments or repossessing equipment from a defaulting lessee can be extremely expensive, bank officials are skeptical of all applicants. If the bank has to reclaim delinquent equipment, it must pay the price of storing it and then probably take a loss on the item's resale.

Leasing, also known as "renting to own," is beneficial only in certain circumstances. Because the system requires the lessee to pay a great deal more than the actual retail value of the property, it is impractical to lease unless you're sure the arrangement will benefit your income tax statement, and in the end, prove to be an economical means of acquiring equipment. Also, leasing laws vary from state to state and can be quite complicated. Only a few states, for instance, require leasing companies to include "full disclosure" of all leasing information in their "rental-purchase" agreements.

This means they must fully disclose any and all payment, merchandise, and liability information that consumers should know before signing an agreement. These leases should, for instance, clearly note the actual cash value of the property being leased. Many leasing companies do not like to do this because it scares some customers away. Also, the extent to which consumers are held liable for damage, loss or theft of property, can be ambiguous in a rental-purchase agreement. Some contracts include liability insurance—others do not. Because state laws vary so drastically, it is wise to have an attorney look at your leasing contract before you sign it.

You might be thinking, why would anyone want to lease? It does have some very definite advantages. First, lease payments are viewed by the Internal Revenue Service as operating expenses and can be fully deducted after they are paid. So if your business is currently earning a sizable taxable income, the tax advantages may compensate for the higher cost of a lease, and you may still be able to take advantage of the federal government's allowance of a 10 percent investment tax credit for business equipment purchased. Some leasing companies take advantage of this credit themselves, while others pass it on to the customer. It is very important to ask your accountant for advice.

Second, leases usually require no down payment. As a result, you can lease a very sizable amount of equipment with essentially no upfront capital—other than the first and last month's payment in advance. Third, lease obligations do not appear on business records as debts. Therefore, your financial statement will look much more attractive, especially if you are in need of obtaining regular bank credit.

On the date of your lease termination, you have two options. First, you can make your final payment and return the equipment. Second, you can pay a pre-established fee to gain ownership of the product. This fee, called the "purchase