

Buy or Lease?



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Lease works good in a high income year!



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Tax Ramifications:



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\$500,000 and 50% bonus tax savings, this year! (phase out)!

- It is generally done for the tax benefit
- Write off interest/(principal)
- Have to have net income to make use
- 3 year all written off vs 5 year depreciation
- Lease is a tax deduction when you are beyond the allowable tax deduction!



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What can be leased?

- Farm machinery (new or used)
- Auto/trucks
- Buildings
- Grain storage
- Dairy/livestock equipment
- Processing equipment
- Generally 36 – 120 months!



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Lease will cost more! (+2%)!

- **Effective rate!**



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Lease requirements!

- **First payment up front**
- **No down payment makes cash available**
- **Money only for the specific item**
- **Item is the only collateral!**



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**Save on taxes but annual payments
come each year 3-7 year?**



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**Lower maintenance cost with newer
equipment!**



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Lease equipment that turns fast !

- **Generates high profit annually**
- **Pay for only in the time you intend to use the item in the term of the lease!**



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Lease equipment that has a warrantee!



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**IRS – at end of lease book value
should equal the payment made!**



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**Are you getting the maximum discount
when you lease?**



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How to treat a lease on the balance sheet?

- No value
- Based on asset value with equal liability
- You have no title to leased item!



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Affects on your cash flow!



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Buy out early?

- Like paying all of the interest even if you did not use the money (lease) for as long as the contract reads!



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Buyback

- Should be more value in the piece when lease is due
- Leasing company hopes you will give it up!



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5 year lease may have 20% residual



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3 year lease with a 45% residual



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Leasing company takes all of the depreciation!



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Where did your money come from?

- Investor
- Wall Street
- Hedge Fund
- Bank
- Farm Credit!



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Payment depends on the enterprise cash flow!

- Dairy – monthly
- Custom work – semi annual
- Cropping – annual!



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Fine points when returning a piece of equipment after the lease:

- Good general operating condition
- Hours
- Tire wear
- Local dealer will have your best interest in mind
- Wants to lease to you again
- Faster approval with future leases!



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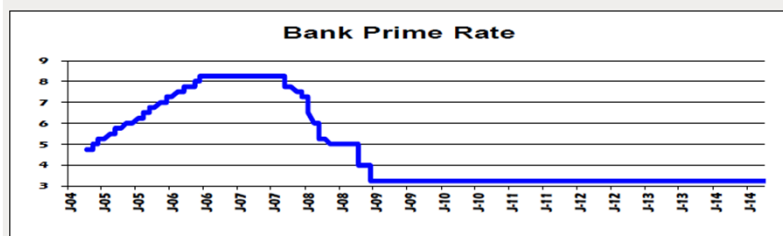
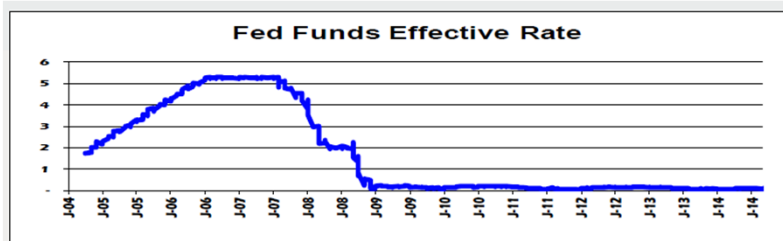
What's going on?

- Oil **down**, Milk **down** – Tim Hunt Rabobank
- Dairy Exports **down**
- Oil, Russia, World **Deflation**
- **\$UP**, **Ruble Down**, Best Place to put Your \$
- **Fed Patient**
- **Commodities Demand Down**
- “Not a supply issue”
- **1% Change in supply 25% Move in Milk**



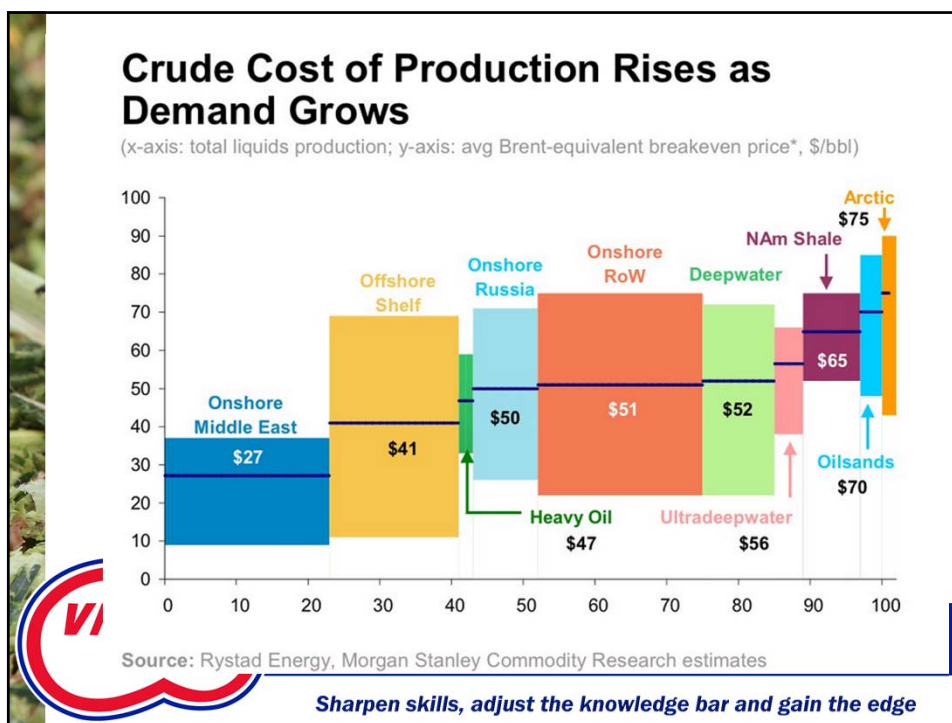
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How long do you wait to get paid?

- January – February discussion meeting
- Producer, crops consultant, lender
- Contract
- Are you paid ahead, when you leave or..
- +700 credit score 5% default
- =650 credit score 33% default
- <600 credit score 51% default



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VITA PLUS

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