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To buy or lease? That is the question

It's an age-old question with a new twist: Should you buy or lease equipment and other business property?

Answer: It depends. While the Tax Cuts and Jobs Act (TCJA) improves the tax incentives for buying, this isn't a slam dunk by any means.

On the buying side

Notably, if you buy equipment that won't become obsolete, you should get your money's worth over time, especially for long-lasting property that isn't affected by technology (e.g., furniture).

From a tax perspective, Section 179 and bonus depreciation are a powerful 1-2 punch.

1. Section 179 deductions: Under the TCJA, the maximum Section 179 deduction is doubled from $500,000 to $1 million for property placed in service in tax years beginning in 2018. And the Section 179 deduction phase-out threshold is hiked from $2 million to $2.5 million for tax years beginning in 2018.

2. Bonus depreciation: A business can also claim a 100% bonus depreciation deduction for the cost of qualifying property acquired and placed in service between 9/28/17 and 12/31/22. The TCJA expands the deduction to include used, not just new, property. After 2022, the bonus depreciation percentage is gradually phased down until it disappears after 2026.

If there is any remaining cost, it can be depreciated over time under the regular depreciation schedules. Note: Other special rules may apply to vehicles and other "listed property."

However, when you buy property, you generally are required to pay the full cost up-front or in installments. This could include extra financing charges. Plus, buying property requires funds that might be better used elsewhere.

Also, if equipment becomes outdated, it will be hard to sell it and recoup any substantial return. If you finance a purchase, new business interest deduction limits may apply.

On the leasing side

The main advantage of leasing is the lower up-front cost. Frequently, you won't have to come up with a sizeable down payment (although there are certain exceptions), so you can free up cash for other purposes.

Also, you may find favorable lease terms that suit your needs. And leasing makes it easier to upgrade if the property becomes outdated.

As far as taxes go, you can generally deduct lease payments as ordinary and necessary business expenses, subject to certain special rules (e.g., as with buying, limits apply to vehicles).

Of course, while the up-front expense is usually less, it can cost you more money in the long run because you're either renewing the lease or acquiring another one. Unlike ownership of property, you won't build up any equity.

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So, when the lease term is up, you get zero back for the money you've laid out.

Furthermore, when you lease equipment, you're generally locked in for the entire lease term. If you break the lease, it may cost you.

Finally, as mentioned above, the tax incentives are generally better for buying than leasing.

Tip: Your tax pro can help you decide.

New accounting rules to debut

New rules issued by the Financial Accounting Standards Board (FASB) could change things.

Alert: Under the new FASB rules, current off-balance leasing activities will be reflected on balance sheets in accordance with existing Generally Accepted Accounting Principles (GAAP), providing greater transparency.

In short, leasing may become more attractive from a financial reporting viewpoint.

Tip: The new rules apply to public companies with fiscal years beginning after December 15, 2018, and private companies with fiscal years beginning after December 15, 2019.

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