

Equipment Finance

Purchase, loan, or lease?



Considerations when acquiring new equipment

Your business needs the right equipment to stay competitive. But whether you're upgrading critical machinery or replacing outdated technology, those tools can come with a big price tag. You have several options to consider as you plan the most effective ways to acquire new equipment.



Purchase with cash

If your company has plenty of cash on hand, it may be tempting to simply write a check to cover the cost of your equipment upgrades.

Benefits

- You immediately own the new equipment.
- You may be able to take advantage of tax benefits such as depreciation.

Keep in mind

- An outright purchase may tie up working capital and reduce your financial flexibility.
- If your budget is tight, you may opt to hold down costs by purchasing older equipment—potentially undercutting the benefits of the upgrade.
- As the owner, you're responsible for covering all maintenance and future upgrade costs.

Finance with a loan

Regardless of industry, you can borrow to finance most types of business equipment, from \$50,000 technology tools to multi-million-dollar construction machinery.

Benefits

- Down payments may not be required, minimizing the purchase's impact on working capital.
- Reliable payment terms on fixed-rate loans can help your business manage its expenses.
- Loans can offer tax benefits such as interest deductions and depreciation.

Keep in mind

- Consider using a separate equipment finance loan that won't draw down your business' existing lines of credit.
- Look for a lender that offers not only good loan terms, but also industry expertise to help you finance your new equipment.

79.3%

of businesses that acquired equipment or software in 2021 used at least one form of financing.¹

1. Equipment Leasing & Finance Foundation, "2022 Equipment Leasing & Finance Industry Horizon Report." <https://www.leasefoundation.org/industry-resources/horizon-report/#KF>

Leasing is the most common payment method used by businesses to acquire equipment and software.²

Lease new equipment

With a lease, you won't own the equipment. For some business leaders, that's part of the appeal.

Benefits

- Lease structures often offer lower monthly payments when compared to loans.
- Leasing may reduce upfront costs, including those related to installation and maintenance.
- A lease can help conserve working capital for other strategic investments.
- You can tailor lease payments to meet your specific business and sales cycle, including seasonal payment terms.
- Leasing gives you flexibility to upgrade to the latest equipment models, in some cases at no additional cost.
- The lessor assumes the risk that the equipment may lose value more quickly than expected, aka residual value risk.
- Certain lease structures cover maintenance of the equipment.

Keep in mind

- You may have the option to purchase the equipment at the end of the lease.
- Leases come in a range of shapes and sizes. Work with your lease financing provider to find an arrangement that best suits your needs.

2. Equipment Leasing & Finance Foundation, "2022 Equipment Leasing & Finance Industry Horizon Report." <https://www.leasefoundation.org/industry-resources/horizon-report/#KF>



Ready to acquire new equipment? Wells Fargo's financing specialists are ready to help with all your equipment financing needs.