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Several Factors to Assess When Deciding Whether to Lease, Buy Ag Machinery

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Several Factors to Assess When Deciding Whether to Lease, Buy Ag Machinery

LINCOLN, Neb. & With rising ag machinery and equipment costs, some farmers are considering leasing versus buying. However, there are many pros and cons to address before making the decision, a University of Nebraska-Lincoln Extension educator said.

The National Agricultural Statistics Service reports that machinery and equipment expenses and fuel expenses have gone up nearly 25 percent the last two years, said Tim Lemmons, UNL Extension educator in Cass County.

"Economic efficiency is paramount to profitability in crop production operations," Lemmons said. "When assessing whether to buy or lease ag machinery for your operations, you'll want to understand the factors affecting the economics as well as compare the financial aspects of each option."

This and other cost saving tips to help deal with high input costs in crop production can be found at UNL's Surviving High Input Costs in Crop Production (**http://cropwatch.unl.edu/survivinghighinputcosts.htm**) Web page.

Some advantages of leasing equipment include: lower up-front, down payment costs compared to purchasing; payments often are less than traditional loan payments; less liability on the balance sheet; equipment available for short-term needs; access to and use of latest technology; and lease payments are considered production expenses for tax purposes.

Some advantages of buying equipment include: owned equipment may be easily replaced or sold at the owner's discretion while replacing leased equipment may be more difficult; owned equipment has asset value and may be used as collateral against other loans; purchases do not require security deposits, although down payments to secure financing may be higher; purchased equipment has no use limitations while some leases specify the number of hours a machine may be used before a penalty is imposed; and increased asset value on the balance sheet.

"Deciding whether to buy or lease equipment requires that you understand some base characteristics and how they affect cash flow and asset management," Lemmons said.

The most difficult to evaluate is depreciative cost of equipment over time. Depreciation is defined as the decline in asset value over time. It also represents the basic ownership costs of a capital asset and the consumption of an asset's value over its useful life.

This is important when considering the effect of machinery on the farm tax position. Consult a local tax professional to be sure of this.

Lemmons says that leasing has been shown to be similar to buying when it comes to expenses related to fuel and lube, maintenance and repair costs in the early periods, insurance costs, housing and other variable costs.

For the operator, there are categories where superior management ability offers advantages, specifically in machinery repair and operations.

New technologies and precision farming advantages also may be part of the decision, he said.

"Producers must carefully consider and weigh the advantages and disadvantages of the lease and purchase options when buying machinery, accounting for individual and operational cash flow and tax needs, the user's machinery aptitude and skills, and the goals and objectives for the farm."

Another option, Lemmons adds, is to share machinery.

"This can reduce costs and even offer increased purchasing power," Lemmons said.

However, there also are several disadvantages such as both owners needing the equipment at the same time or cash flow needs not coinciding.

More information on the economics of leasing versus buying ag machinery and more depreciation information can be found on UNL's Surviving High Input Costs (**http://cropwatch.unl.edu/survivinghighinputcosts.htm**) Web site or at CropWatch (**http://cropwatch.unl.edu/**), UNL Extension's crop production newsletter.

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