

## BUY OR LEASE YOUR CAR?

A common question I hear from my clients is whether they should buy or lease their car. *Buying your vehicle makes more economic sense, but other factors such as personal circumstances and priorities should be considered as well.* Read on to learn more.

### **Buying: Advantages**

The most important advantage of purchasing a vehicle is that you own it. Each car payment you pay includes a principal amount and an interest amount. The principal payments allow you to build equity in your car and the right to sell it in the future. Plus, after you have finished paying off the vehicle you have no more car payments and are not locked into any per-determined ownership agreement.

*Long term leasing is always more expensive than long term buying:* For example, you buy a \$20,000 vehicle and plan to pay it off over 5 years and drive the vehicle for 10 years. You will be paying higher monthly payments for those 5 years compared to a person that is leasing. However, after the vehicle is fully paid for, there are no car payments and the only expenses for the vehicle are repairs and maintenance. That means 5 years of no car payments and a potential sale or trade in of the car after the 10 year period. Compare this to the person who decides to lease a new car every 3 years and is constantly paying monthly lease payments.

*Business use:* Car dealers would rather you lease your vehicle than buy, because it is a better economic situation for them (*See Leasing: Disadvantages below*). When you buy a car you recoup wear and tear through depreciation based on business usage. Depreciation rules provide many benefits for business vehicles which increase if the vehicle is used more than 50% for business or is over 6,000 pounds. In the first year of buying a vehicle, this includes a Section 179 deduction up to IRS determined limits plus regular depreciation.

You should also think of the lower insurance limits that are allowed for purchased vehicles compared to leased vehicles.

### **Buying: Disadvantages**

Purchasing a vehicle usually comes with a required down-payment, so if you are strapped for cash it can sometimes be difficult to buy. Although you are making monthly car payments and building equity in your vehicle, depreciation can take its toll on your vehicle's fair value. As a result, people who pay a low to modest down payment, could end up financing a majority of their vehicle's cost and could enter into a situation where they owe more on their car than what is it worth, or being "upside-down". If you continue to make all of your payments, this problem will correct itself since you will owe nothing at the end of the loan.

Also be wary of routine repairs that can add up for purchased vehicles as warranties expire and push the cost of maintenance onto the car owner.

**Leasing: Advantages**

Leasing allows you to only pay for the depreciated or used amount of the car over a fixed amount of time. Compared to buying, leasing provides lower car payment amounts initially and usually requires little to no down-payments. By leasing the vehicle, you are always guaranteed updates in safety, design, and performance for every new vehicle you lease. If you feel the desire to drive a newer model car every 2-3 years, leasing makes more economic sense than buying.

**Leasing: Disadvantages**

The largest disadvantage of leasing is that you will always have a monthly car payment, plus most leases include an extra charge for miles driven over pre-stated amounts or extra "wear and tear" fees. With leasing you never own your car and insurers on average charge more for leased vehicles than for owned vehicles. You can also be "upside down" in a lease if you put too many miles on the lease or "roll" the negative into a new lease.

*Business Use:* Car dealers always push you to lease cars by telling you that you can write off the lease payments, when really, you can only write off the business portion of the lease payment.

**Reasons to Buy or Lease Your Vehicle**

Buying Vehicle	Leasing Vehicle
<ul style="list-style-type: none"> <li>• Don't mind initially higher monthly payments</li> <li>• Prefer to build up trade-in or resale value</li> <li>• Don't mind unexpected repairs</li> <li>• Plan to keep the vehicle for more than 3-4 years</li> <li>• Plan to drive the vehicle more than 10,000-12,000 miles per year</li> <li>• You have cash available for a down payment</li> <li>• Want to take advantage of depreciation deductions</li> </ul>	<ul style="list-style-type: none"> <li>• You desire to have a new car every 2-3 years</li> <li>• Enjoy a car that is always under warranty</li> <li>• Do not enjoy trading-in or selling used cars</li> <li>• Want initially lower monthly payments and little to no money down</li> <li>• You don't mind paying higher insurance rates</li> </ul>

**Bottom Line:**

Buying makes more economic sense than leasing, unless you want a new car every two years. I suggest buying a used model with low mileage-you will get a steal and credit unions are currently offering car loans at competitively low rates.

Cutting the emotion out of cars, the purpose of vehicles is to provide transportation from point A to point B. Comparing a smart purchase of a used, low-mileage car over 10 years to that of leasing vehicles for the same period is a no brainer -buying is good common sense.