Know Your Options:

Buying versus Leasing a Self-Propelled Sprayer

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After deciding it is time to either upgrade your current self-propelled sprayer or get into your first sprayer, you will then need to decide which method of purchase is better for your situation: buying or leasing. Traditionally, purchasing is the most common method of buying farm equipment; however, it may not always make the most financial or operational sense.

Many factors will play into your decision to buy or lease a self-propelled sprayer. By looking at both your financial and operational goals, you will be able to make a more informed decision on which option is better.

Assessing financial goals

Like all important business decisions, you will need to consider the short term and long term ramifications of your decision. Your financial goal considerations should include:

- Cash flow
- Balance sheet
- Tax benefits

Cash Flow and Balance Sheet

Looking at the differences between buying and leasing a self-propelled sprayer will give you a better idea which option is more suited for your needs.

The major dissimilarities include the following:

Buying a Sprayer

- Higher monthly payment
- More liability on balance sheet
- More assets on balance sheet

Leasing a Sprayer

- Lower monthly payment
- Less liability on balance sheet
- Fewer assets on balance sheet

Breaking down each of these points allows you to better understand what effect each option will have on your balance sheet and your cash flow. The higher monthly payment associated with the purchase option requires more money upfront leaving less cash flow. If one of your financial goals is to conserve capital, then it may make more sense to lease.

Additionally, a purchase agreement creates more liability for your balance sheet. In doing so, it will make you a less desirable candidate for future loans. On the other hand, a purchase agreement will also give you more assets on your balance sheet.

Tax Benefits

While Section 179 only benefits those who are purchasing equipment, leasing does not come without its own tax benefits. An operating lease may be considered a tax deductible overhead expense which makes it possible to deduct lease payments from your income. The lease payments are typically treated as 100 percent tax deductible paid form pre-tax earnings rather than after-tax profits.

Beyond this, the final purchase of a leased self-propelled sprayer is also tax deductible. Also, during the duration of the lease agreement, you may retain the right to purchase the machine. This makes the amount that is still owed on the sprayer tax deductible.

Your unique situation will determine which method of purchase offers more advantages. Generally, if you are working with higher income tax liability, leasing may not allow for as many tax deductions; however, if you are operating in a lower tax bracket, leasing can save you money and increase your cash flow.

Estimating operational goals

Going hand-in-hand with your financial goals are your operational goals. The decision to finance a new sprayer is not just about the sprayer. It should include considerations of other purchases you need to make, for example:

- Additional equipment
- Extra structures
- Increase in overhead costs
- Additional acreage
- Technology upgrades

Look at what your other operating expenses and future purchases might be to determine where your capital needs to go. Using less capital to lease a sprayer instead of purchasing will free up more assets to purchase the other necessities involved with farming. With less debt on your balance sheet, it will be easier to apply for a loan to purchase another piece of equipment or to add acreage.

Protect against obsolescence

Self-propelled sprayers are unique to many other pieces of farm equipment due to the rapidly evolving technology involved with spraying applications. A prime example of this is the Apache. From 2000 to 2004, precision technology on the Apache included the Raven 460 rate controller with no guidance. 2005 brought about the basic Light-bar guidance and controller offered as standard options on the machine. A year later, in 2006, the Envizio Pro field computer replaced the light-bar. By 2011, the Envizio Pro plus AccuBoom and AutoBoom became standard options on the Apache. In just 11 years, technology has drastically changed the way we do spraying applications.

With rapid developments that expand the spraying return on investment, it is increasingly important for operators to be able to utilize the latest technology. The Apache's rapid technology advances further proves the importance of staying up-to-date with equipment. Relying on old technology can take away from your bottom line.

Even if your current sprayer is functioning perfectly, you still might consider trading it in to have access to newer, more profitable technology.

Evaluating a buy versus lease example

Looking at the following example, the situation on the left represents purchasing an Apache AS1025, and the situation on the right features leasing an Apache AS1025. Breaking down these two situations, it is easier to see the differences in terms of costs related to purchasing or leasing a self-propelled sprayer.

Sprayer Model	AS1025	AS1025
Sprayer Cost	$ 200,000.00	$ 200,000.00
Down Payment	$ 40,000.00	$ 40,000.00
Amount to Finance	$ 160,000.00	$ 160,000.00
Rate	3.50%	3.50%
Term	60 Months	60 Months
Payment Frequency	Annual	Annual
Residual Percent	N/A	30.00%
Residual Amount	N/A	$48,000.00
Payment	$35,487.08	$25,641.00
Number of Payments	5	5
Cost to Own:	$177,435.40	$176,205.00

In this scenario, the cost of financing the Apache AS1025 sprayer, after the typical 20 percent down payment which results in $40,000, is $160,000. The rate of the loan for both the purchase and the lease agreement is set at 3.5 percent. To keep things as similar as possible for the scenario, both terms are set for 60 months, and the payment frequency is set at annual payments.

The lease agreement is set at a typical 30% residual percent which results in a residual amount of $48,000.

Now looking at both annual payments, the loan payment is nearly $10,000 a year higher than the lease payment. Over the five year term, this is almost an extra $50,000 for you to do something else with. Additionally, with a lease agreement, the lease amount is not tied to your balance sheet which gives you less liabilities if you are trying to purchase something else, such as more ground or another piece of equipment.

Looking at the last line in the scenario, the cost to own value is less expensive through the leasing option by a little more than $1,000. If you decide to purchase the sprayer at the end of the lease, you are still saving a little money. Leasing a self-propelled sprayer offers a low risk option to try a new sprayer or to upgrade to newer technology.

While purchasing may be the most common method of financing a self-propelled sprayer, leasing may make more financial sense for your operation. If it is important for your operation to keep updated with new technology, conserve capital, or if your operation works within a low marginal tax rate, leasing may be the solution.

Since every situation is unique, we recommend working with your dealer and sharing your financial and operational goals to help determine which option is better for your situation. Looking into the future a few years, if you plan to trade your sprayer in every three years or you plan to retire in a few years, a lease agreement offers a more affordable way to assist you achieve your goals.

