

## Quick Facts: Should You Buy or Lease a Car?

- ) Generally speaking, if you are eligible to deduct automobile expenses from either your business or employment income the deductions available over time are the same.
- ) Deciding whether it's better to buy or lease hinges on the timing of your purchase, the type of car owner you are, and your overall financial circumstances:
  - ) **Timing.** If you buy a vehicle, your tax deduction is the same whether you bought it January 1<sup>st</sup> or December 31<sup>st</sup>. If, on the other hand, you started making lease payments early in the year then you will have paid more in lease payments--and thus will be eligible for a high deduction in that year. If you leased the car in December, your first payment is not made until the following calendar year--and thus there is no deduction available for that year.
  - ) **What kind of car owner are you?** You may be a person who doesn't anticipate putting lots of kilometers on the car, and you simply enjoy driving a new car. In that case, it's probably in your interest to lease.
  - ) **Overall financial circumstances.** If you are financing a car and you plan to keep it, you should always buy. In the long run, borrowing costs less than leasing.

### SNAPSHOT: LEASE V. BUY

LEASING		BUYING	
Price	\$25,000	Price	\$25,000
Down payment	0	Down payment	0
Monthly payment	\$ 500	Monthly payment (@ 0%)	\$ 694
Total spent after 3 yrs	\$18,000	Total spent after 3 yrs	\$25,000
Cash required to buy out	\$10,000		
Total vehicle price	\$28,000	Total vehicle price	\$25,000

**Pros:** ✓ Lower monthly payments and lower maintenance costs

**Cons:** ✗ No equity, limits on mileage, down payment is deductible BUT ONLY if the combined monthly amount is under the allowable limit

**Pros:** ✓ An asset for which you have no mileage limitations

**Cons:** ✗ Higher monthly payments with more repairs as it gets older

- ) **In a nutshell,** leasing is a lifestyle choice and buying is a financial choice. If you can handle monthly payments but need to finance a car, then leasing is probably the way to go. If you have the cash to buy and plan to keep the car, then buy it. Either way, you may be eligible to claim a portion of your car expenses if it's used for business.

Every situation is unique. Please make sure you consult your tax professional so that you get the advice that's right for you.

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