



PHOTO: SUSAN WINSOR

# LEASING OPTIONS

**R**iskwise decisions really paid off in generating and preserving wealth in 2008. They'll be even more important in 2009 as worldwide liquidity issues continue to impact agriculture. As I have indicated in previous articles, we continue to see credit availability problems and interest rate challenges for producers who wish to lock in rates on long-term investments. Lenders as well as borrowers are concerned about inflation causing rates to rise in the future. Consequently, lenders' cost of funds to finance long-term fixed rates has risen and may continue to rise.

**ONE CONSIDERATION** you may look into is more use of leasing machinery or other fixed assets such as grain bins, buildings or special-use structures.

Leasing is considered off-balance-sheet financing by most lenders and consequently does not affect leverage ratios. With financing issues continuing to surface, leasing provides additional flexibility in obtaining financing for your ongoing operation.

There are other advantages to leasing that may fit your needs since 2008 was a high-income year

for many producers. With a lease, one can accelerate deductions by deducting the entire lease payment each year and most likely over a shorter period of time than conventional loan amortizations. With loans, only the interest portion of the payment is deductible. This may be an increasingly important factor if tax rates rise in the future.

**LEASE PAYMENTS ARE** generally fixed for the entire term of the loan, whereas a number of lenders typically go no more than five years for a fixed rate on similar projects.

We have a number of clients who are using leasing as an estate planning and wealth management tool.

For example, leases do not enter your estate immediately, can be easily transferred at the end of the lease and are subject to specific contract terms. At the end of a lease you typically have one of three options: renew the lease, buy it out or give the property back to the leasing holder.

Recently a client used a lease as a wealth transfer tool. The couple owned a hog building site that they obtained a lease on. At the end of the lease they plan to transfer ownership of the site to their children.

The son or daughter can then obtain ownership at a fraction of the original cost, and the site would not be in the estate of the parents. Typically these types of assets appraise at or more than the original cost after the loan or leased is paid. **CSO**

## LEASING COMBINES

**A**n increasingly popular option of having a new or late-model combine with the newest technology is through leasing. Machinery Link, Kansas City, has experienced very good growth by leasing combines to multiple owners in the southern and northern wheat belt ending the year in the Corn Belt. Scott Hazlett, the new CEO, was a speaker at our 2007 summer conference. Many of our clients have had good experiences in reducing costs and increasing effectiveness while enjoying the benefits of off-balance-sheet financing, reduced insurance and repair costs and new technology. **◀◀**

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