

## *No Magic Formula On Leasing Car; Depends On Taxpayer's Situation*

To lease or buy? That is the question. "Consumers are frequently confronted with the decision of whether to buy or lease a car," Says Basil Taibel, a CPA with Timonium's Kahn, Berman, Solomon, Taibel, and Mogol. "I get at least two calls every week asking for advice on this subject.

"Yet, there's no magic formula; it's a case-by-case decision, one that largely depends on the taxpayer's circumstances."

And of new cars on the road today, says the America Institute of Certified Public Accountants, one of every three is leased.

Of course, much of the initial attraction of leasing is that a down payment isn't necessary. "There's no money down, and the monthly payments for leasing are lower," says Taibel. "A lease is also appropriate for a taxpayers who desires a higher-priced vehicle or one that will be difficult to resell."

Nevertheless, while leasing does not require a down payment (although the first month's payment plus security deposit is required up front) there can be pitfalls.

"Most people who first walk in to lease a vehicle do have a cash down payment or a car to trade in," says Bohn Pontiac's Steve Bohn, "and they come out with this unbelievably low monthly payment, say \$229 a month for 36 months for a \$20,000 car."

However, the reason lease payments are so low, he adds, is that "they have allowed the leasing company to take their cash or trade in and reduce the depreciation. So it's giving people a false lease figure, because at the end of those three years, they'll not have a car to trade in."

Taibel offers another illustration.

"If you have a five-year lease on a Mercedes that sells for \$45,000, you are only paying for the depreciation from \$45,000 to a residual value of \$22,500, plus the interest," notes Taibel. "In other words, you are now paying 100 percent of the principal and because of this, the monthly lease payments are usually going to be about one-third less than the purchase payments on a comparable vehicle." Bohn advises consumers that "a true lease is when you walk in with no money down and no trade in. Then at the end of the three years, when you renew your lease, the payments will be pretty much the same."

### ***Best for whom?***

Leasing is often the best for those who want a new car every three or four years and for those who would have to borrow to pay the down payment on a new car. It also benefits car manufacturers - these individuals will be back in a few years for a new model, unlike owners who hang onto their aging cars for eight, 10 or more years.

There are some other considerations, as well. "If a company is buying, as opposed to leasing, 10 cars, it has to show that it has the ability to pay them all off," says Taibel. "But with leasing, things are 'off the balance sheet,' which means the company will show less debt. The cost of the interest is included in the lease payment, so it becomes 100 percent deductible, and when it comes time for a new car, there are no worries about getting rid of the old ones."

On the other hand, many business people do choose to buy the corporate vehicle. "When you purchase a business car, you run into something called the luxury auto rules," says Taibel. "That means that a car used for business purposes, if it costs more than \$16,000, only allows a deduction in the first four years of \$12,885 in depreciation."

### ***Tax Implications***

"When you trade that car in you will have a loss, which you will not be able to deduct," Taibel said. "On the other hand, if you sell the old vehicle you will be able to utilize the loss." Put another way, Taibel recommends that person in this situation request a separate check for the car - as opposed to a trade in - from the dealer. "That way one can take a loss on the vehicle." There are other tax implications to leasing vs. purchase when it comes to company cars. "The monthly payments are deductible if a car is leased and if the vehicle is used more than 50 percent of the time for business," says Taibel. "but a person who leases for personal use cannot deduct the lease payments." In his own case, Taibel leases a car for himself, while his wife drives a car she owns, "For a business person who is out seeing clients and needs a car - and a reliable one at that - I'd recommend leasing," he notes.

"Over the years, I've had different opinions on leasing," says Bohn. "Those who are considering leasing should know how many miles they will be driving each year, how long they want to lease, know the type of car they want to drive, and what they can afford, then go and make a deal based on that." However, Bohn does not recommend leasing a car for less than two years. By the third year depreciation is lower, he adds, and that makes leasing more economical for the customer.