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January 2002 - Should I Buy Or Lease A Car?

January is a great month to get a car. There are lots of discounts, rebates, and interest rate deals available this time of year.

If you've decided it's time to upgrade your car, the next question usually is: Should I buy or lease? We'll try to answer that question in this article.

The quick answer is: It depends. It depends on the number of miles you drive, the terms you are being offered, and how long you plan to keep the car. Surprisingly, taxes generally don't make much of a difference. If you use the car for business, you'll get a similar write-off in the long term either buying or leasing. If you don't use it for business, you won't get a write-off from either buying or leasing.

Here is a simple way to compare costs. First take the best purchase offer you have. Multiply the number of monthly payments you will make by the amount to be paid each month. Add the down payment. Finally, subtract the estimated low book value when you plan to change cars again. The answer will be your total acquisition cost for the car.

A basic and reasonable way to estimate the future low book value of your car is to look at the current low book value for the closest car you can find to the one you are buying, similarly equipped, with the number of miles you plan to put on the car you are buying. For example, if you are buying a 2002 car, plan to keep it four years and drive it 60,000 miles, then look for a similar 1998 car (which is now 4 years old) with 60,000 miles. Kelly Blue Book and NADA have web sites that can help with an estimate of value, or you can ask your bank or credit union.

Next, look at the best lease offer you have. Again, multiply the number of monthly payments you will make by the amount to be paid each month. Add any upfront costs you must pay to drive the car off the lot. Then add any projected "penalty miles" at the end of the lease (for example, if you are allowed 12,000 miles per year, or 48,000 miles total over a 4 year lease, and if additional miles cost \$.15 each, then you would add \$1,800 for penalty miles if you plan to drive 60,000 miles, which is 12,000 miles over your allowance times the \$.15 per mile penalty). Pay special attention to those penalty miles if you will be putting a lot of miles on the car. The extra miles will also drive down the resale value if you purchase, but probably not as much as the lease penalty will be.

Finally, compare the total acquisition cost for the car under the purchase and lease options. You can do this as many times as you like until you have found the best deal. Generally you can keep other costs such as gas, maintenance, and insurance out of the analysis, since they will be the same either way. One possible exception is if you have to buy more insurance to lease than you would otherwise get if you purchase. If (and only if) this is true, then add the additional insurance as an addition to the acquisition costs on the lease option.

This kind of analysis can also help you decide whether you want to acquire a new or used car, or if you want to keep your existing car a little longer. You can calculate acquisition costs on a used car in the same way as described above for a new car. As for your existing car, you would determine depreciation by subtracting the current low book value from the estimated low book value one, two, or however many years out you want to go, with the additional miles you will drive. Then make an honest estimate of how much more repairs and maintenance will be on your existing car than on your new one. Add the difference to the depreciation you will incur on your current car, to determine the cost of keeping your current car to compare it with the acquisition cost of a new one.

Please call or e-mail me if you would like a free worksheet to help you through this comparison!

The information in this article is intended to inform you of some of the opportunities available when buying or leasing a car. It is not intended to give you specific advice for your personal situation. If you need such advice, please contact a qualified professional!

If you have a question you'd like to have answered in a future article, please contact me in care of the **Hurricane Valley Journal**.