

Lease vs. Buy – What’s the Best Choice for You?

By: Brian Puckett, JD, CPA/PFS
Sept. 1, 2004

With all the advertising about automobiles and the benefits of leasing, there’s little wonder so many people are considering it. While everyone’s situation is unique and the decision must be right for each person’s specific financial situation, here are some general guidelines and criteria that may be helpful to you.

Buying

When you buy a car, the purchase costs are fairly clear, including the down payment, dealer’s fees, loan payments and finance costs (if you finance the purchase). Whether you pay cash or finance the vehicle, it ultimately belongs to you. If you finance it, your equity in the vehicle builds with each loan payment. You can drive as many miles each year as you want and change or customize your car however you’d like (keeping in mind the effects that your driving habits might have on resale value, of course). If you decide that you no longer want to keep the vehicle, you can sell it at any time, on the open market, with no pre-payment penalties.

Freedom is the opportunity
to make decisions . . .
Kenneth Hildebrand

mind
value,
the
with

Leasing

When you lease a car, a deposit is often required; however, the initial amount required is usually smaller than what’s required for most automobile purchases. With a lease, there are certain contractual limitations on what you can do with the car. There are restrictions on mileage and wear and tear. In addition, there are limitations on making changes, or customizing, the vehicle – and there may be penalties for early termination of the lease. Fees will be assessed for exceeding any of the original terms, which means that you won’t know the **real** cost of the vehicle until you turn it in.

Things To Consider

If you’re trying to make a decision, ask yourself these questions. If you can answer “yes” to two or more, leasing may be a good option for you.

- Is it important to you to drive a new car every few years?
- Do you keep your cars in excellent condition?
- Are you willing to have car payments for as long as you drive the vehicle?
- Will you be satisfied with the vehicle as it is and forego any plans to modify it?
- Are you fairly certain your driving habits won’t change and you won’t risk exceeding the mileage limits?
- Are you planning to claim the lease payments as a tax deduction related to your business?

- If you need or want to return the car early, are you willing to pay the early termination penalties?

Whichever way you decide to go, you should have an idea of the vehicle you want and how much you are willing to pay for it before you begin negotiations. Visit dealerships, compare vehicles and prices, and research the Internet for pricing and options (one helpful Web site to visit is www.LeaseGuide.com). Leave your emotions at home and negotiate in a realistic, win-win manner. The dealership needs to make some profit to stay in business, of course, but you'll want to make the best deal possible for yourself.

Brian Puckett, JD, CPA/PFS is the managing principal of Brian Puckett Retirement Advisors, a Federally Registered Investment Adviser. Securities are offered through Cambridge Investment Research, Inc. a Registered Broker/Dealer, Member NASD/SIPC and Federally Registered Investment Adviser. Phone: (405) 607-4820 or Web: www.puckettadvisors.com.