To Lease or Buy Medical Equipment: What's Best for Your Practice?

Whether to lease or buy equipment for your urgent care center is a tricky question, and there is no "one size fits all" answer. There are several factors for you to think about when it comes to making an educated lease vs. buy decision.

Your Business

Most of the time it's going to make more financial sense to lease equipment if your business is smaller and has fewer employees, such as the typical de novo or start-up urgent care. The upfront cost of an x-ray room set-up, for instance, is going to be anywhere from $75,000 to $95,000. That can be a cripplingly large investment to a small practice, especially if you're just starting out. However, depending on your credit and the terms of the lease, the payments on high quality equipment can be around $1,000 per month on a 5-year lease. Plus, the lease payments can be applied towards the overall cost of the machine, allowing you to buy it outright if you want at the end of the lease. Or, you can just replace it with a new one once the lease runs out. But a good rule of thumb is that if you're smaller, a lease with tax-deductible monthly payments is a smaller financial hit than a full cash outlay, even if you can deduct the depreciation.

Your Credit

Credit always has an effect on how much you're going to pay for the equipment you lease. Let's say you have a good credit score in the range of 720. Your interest rate would be around 0-3%, to make the math easy. On a $35,000 piece of equipment, you'll pay a monthly payment of $600.83 for 5 years. If you bought it at the end of the lease, you would have paid $36,050 for the $35,000 machine. However, if your credit is around 620, you might get a 7-15% rate. Let's say you got a 12% rate. On the SAME lease terms, you'd pay $653.33 a month, and if you bought it you'd pay $39,200 for the $35,000 machine. These examples are ignoring taxes just to make the math easier.

The Taxes

Under IRS code 179, leasing expenses for business are 100% tax deductible. So, rather than having to depreciate an item over time, a business has the option of deducting the entire price from gross income, thus reducing tax liability. Now, the value of any deduction assumes income to offset...Section 179 elections may be more valuable for existing versus start-up businesses in which revenue is ramping up. However, there are exceptions, and you should ALWAYS find out if the equipment you're considering will qualify for that deduction. The deduction will a apply if you bought the machine outright, but once again you need to make sure your device qualifies. If your device does not qualify, you may be able to deduct annual depreciation, which gives you a tax break based on how much the equipment "loses value" each year.

The Technology

One of the most important considerations when it comes to buying vs. leasing is how fast the technology will be outdated. Do your research on how quickly the tech will become obsolete, because you don't want to spend $35,000 to buy equipment outright only for it to be replaced by something far better. Leasing gives you the flexibility to replace your old equipment with up-to-date technology on a year-to-year basis.

Cost of Maintenance

Most of the time, your equipment will have to be maintained through the company you're leasing it from, and modifications are usually completely forbidden. Leasing gives you less freedom to do what you like with your equipment. Sometimes, that's totally fine! Often you don't need to make a whole lot of modifications to your basic x-ray machine. However, if you're going to customize your equipment at all, you're probably going to need to buy it. And if you buy it, you can get whoever you want to maintain it. Leased equipment can be subject to long wait times for repairs.

Conclusion

The choice to lease or buy equipment is going to depend ultimately on what you can afford and how fast the technology will go out of date. If you can easily afford to buy the equipment outright, do it! If buying would be a financial hit but you have good credit, it may be smarter to lease. And if the technology has changed every year for the past few years… You probably need to lease. Take your practice's finances into account, and don't spend a lot on something that will go out of date in less than 2-3 years. With that information in hand, you can make the most educated choice about leasing or buying!

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