Leasing versus buying

If you're starting a new practice or working to expand your current practice, you may find yourself seeking to keep your cash expenditures as low as possible to ensure your practice can meet its debt obligations and daily operating costs while you grow your patient base and increase collections.

For many dental practices, leasing is a good alternative to financing a purchase with a loan or line of credit. In some cases, leasing may allow you to conserve cash.

A lease is a contract that obligates your practice (the lessee) to make periodic payments to the lessor over the span of a lease term. Leasing falls into two major categories:

Equipment leasing, which includes dental equipment, office equipment such as computers and printers, waiting room furniture and more.

Real estate leasing, which includes office space and parking lots. Real estate leasing can also include sale-leasebacks, which occur when a company sells real estate and leases it back from the new owner.

There are two major types of business leases:

Operating lease, which often allows you to make smaller periodic payments than you would with a term loan. The smaller lease payments are the result of the lease not being paid off by the end of the lease term—that is, not fully amortized. As a result, the leased equipment has a residual value (i.e., the amount you can buy the equipment for) at the end of the lease term. In addition to the option to purchase the equipment at the residual value, the lessee also has the option to renew the lease, or they may decide to terminate the lease and return the equipment.

An operating lease requires the lessor to service and maintain the equipment. The costs for these services are added to the lease payments. An operating lease also allows the lessee to cancel before the end of the lease term.

Capital lease, which involves periodic payments over the span of the lease, paying the lease off in full by the end of the lease term. Capital leases provide the lessee with tax savings earned on the depreciation expense of the equipment. At the end of the lease term, the lessee owns the equipment or faces a much smaller residual value. Because capital leases are considered equivalent to loans, you're required to show any capital leases on your practice's balance sheet.

Lease versus buy analysis

While leasing offers certain advantages over buying, there are trade-offs with either decision. That's why it's a good idea to conduct a lease-versus-buy analysis first.

With leasing, you get the benefit of smaller payments and the flexibility that comes with not owning the equipment for longer than you wish. Buying, however, has advantages that come with ownership. Consider working with a financial professional to evaluate your return on investment by running a discounted cash flow (DCF) analysis. This will help show the expected cash inflows and outflows of either financing decision.

Note: We recommend practice owners consult qualified professional advisers for legal, finance, accounting and tax guidance when considering starting or acquiring a practice.

Let's connect

833-276-6017 (8 a.m.–5:30 p.m. CT)
practice.health@bmo.com | bmo.com/dentists

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