

**JONATHAN FLAWN**  
**FINANCIAL PLANNING**  
Client Information Summary

**Automobiles – Lease vs. Buy**

I prefer buying to leasing for a number of reasons. Leasing managers love to point out that there is favourable tax treatment for leasing versus buying. In those situations where your automobile expenses are deductible, leases are deductible equally each year, whereas an owned vehicle is deductible according to the Capital Cost Allowance (CCA), which is not in a straight line and is only 50% deductible in the year of acquisition. In the end, the same amount is deductible and it's simply a difference in timing. Here's why I don't like leasing cars and this is based on personal experience:

1. Leasing encourages people to buy too much car because the lease payments are less than the equivalent loan payment.
2. Leasing contracts have many restrictions, like additional penalties for excess mileage. The leasing company needs this because for most lease contracts they are guaranteeing the residual value of the car. But what happens if you have excess mileage? Your car salesperson will happily roll your negativity into the next lease, and then the next lease and so on until so are so upside down (that's what the car guys call it) and you can't do it anymore. Not good.
3. With leasing, you have many more factors to consider – what is the capital cost, residual value, interest rate, term, is the residual value guaranteed by the lessee etc. (I have a lease calculator I use to make sure all the numbers add up).
4. It's easy to get hit with excess wear and tear – the lease contract may specify how much tire or windshield damage is acceptable so you may get hit with a lot of extra charges when you turn in the car.
5. Car sales people love to sell a monthly payment instead of a total package price - \$899.49 a month is easier to swallow than \$69,999.49, but the monthly payment may not be a good deal and it's harder to compare if you are shopping around (which you should be).
6. You may not get as good a deal on the implicit capital cost versus negotiating the best sales price.
7. You are more likely to lease a new car, when used cars often make a lot more sense, particularly if you can get an extended warranty (my favourite manufacturer calls them "Certified Series").

Jonathan Flawn Financial Planning  
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Edited by: Jonathan Flawn, CA, CFP, CLU  
CIS #250 20091214

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Head Office:  
405-95 Mural Street Richmond Hill, Ontario L4B 3G2  
Phone: (905)884-5563 Fax: (905) 884-3365  
[www.jonathanflawn.com](http://www.jonathanflawn.com)