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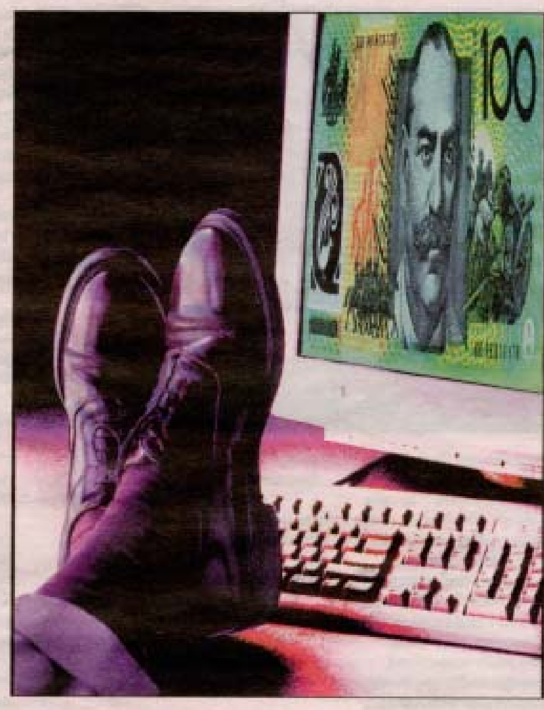
Buying a computer is cheaper than leasing in the long term but some small businesses may have other plans for their dollars, writes **Alexandra Cain**.



LOUISE KENNERLEY

Better cash flow makes leasing a PC attractive

Small-business owners and the self-employed may receive a larger and more immediate tax deduction when leasing rather than buying a PC or a laptop for work. But interest charges generally mean the taxpayer ends up paying more for a computer by leasing it, experts suggest.

Tax advisers say there is a range of considerations business owners should explore before deciding whether to buy or lease a laptop, with taxation issues only one of the variables to take into account.

Adrian Raftery, a director of ARW Chartered Accountants, says leasing rather than buying a computer is a lot more expensive.

"You end up paying around $1000 more in interest if you lease a computer," Raftery says.
would cost $1872 to lease, if the computer was leased at $12 per week for three years.

Assuming a taxpayer is on a marginal tax rate of 31.5 per cent, the tax concession on the additional $1000 the taxpayer pays by leasing a computer would be $315, which leaves the taxpayer $685 out of pocket by leasing.

"You end up better off if you can afford to buy the computer outright. But the business owner might need the $1000 for other purposes," Raftery says.

One of the tax advantages of leasing a computer is that it is possible for the taxpayer to claim the entire repayment amount as a tax deduction (so long as the computer is used solely for work).

In contrast, it is only possible to claim a proportion of the total cost of the computer as a tax deduction in the first year of ownership, if the business owner purchases the computer outright.

"If you claim a rental deduction you can claim the whole amount, provided the equipment is used for work purposes only. So you can claim a bigger deduction [compared to claiming a deduction for a purchased computer] but you

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- A $1000 system will cost almost twice as much on a three-year lease.
- But the extra you pay can be deducted from tax if the machine is used for work.
- At the end of the lease, it will probably be time to upgrade anyway.

Under the straight line method, each year the business owner claims the same amount as a tax deduction. Under the sliding scale method, the business owner claims a higher amount in the first year and a lesser amount in subsequent years, reflecting the declining value of the asset.

'Many people don't want to own a computer at the end of the lease.'

Under Australian Taxation Office rules, desktops are deducted over four years, while laptops are deducted over three.

Deloitte tax partner Elizma Bolt says it is important taxpayers remember deductions are limited to the extent the computer is used for business purposes.

This means people who use their computer at work and at home will need to apportion the business and personal use and only claim a deduction for the time the computer is used for business.

To determine how much to claim, taxpayers should first keep a diary of how the computer is used over four weeks.

The next step is to figure out how much of the time the computer is used for work over the four weeks.

The ratio of personal use to business use over the four weeks should be applied to determine how much of the cost of the computer can be claimed.

Although it works out cheaper to buy rather than lease a computer, many businesses still choose to lease.

Dan McGrath, a senior manager with accounting firm WalterTurnbull, says leasing is better for cash flow purposes.

McGrath says an alternative to leasing and buying is hire purchase. "Hire purchase and leasing are fairly similar in that the interest on a hire purchase is tax deductible," he says.

Hire purchase costs roughly the same as leasing, but at the end of the period, the purchaser owns the equipment.

Many people, however, don't want to own a computer at the end of the hire purchase or lease arrangement, which is one of the main non-financial reasons people choose to lease rather than buy or hire purchase a PC.

"Technology changes so quickly and a lot of people choose to lease so they are able to easily and quickly upgrade their machines."

It's also worth noting the ATO has changed tax treatment of software purchases.

Taxpayers can now depreciate software over four rather than 2½ years.