Summary

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"When are Leasing Agreements Profitable for Lessees?"

This article discusses and expands the approach for examining whether leasing is profitable for lessees. It discusses the standard approach of the financial literature after having made modifications to make this approach consistent with the German tax system. It makes clear that the comparison of lease financing with debt financing, which is the standard approach, tends to distort the results obtained. Useful for developing a calculation scheme free of distortive effects is the adjusted-present-value-approach. Besides, this article also compares lease financing with equity financing differentiated by external equity financing and financing by retained earnings. In this process, both corporation tax effects and income tax effects of the financing alternatives have to be dealt with. We have based our work on the tax regime prevailing after the 2008 corporation tax reform. It turns out that the standard approach implies a comparison with potentially disadvantageous debt financing. We advocate a step-by-step analysis of leasing offers and develop a corresponding scheme.