

# 5 Lease and Finance Options To Help Conserve — or Even Create — Capital

*Five options available that leasing and financing can help law firms not only to deploy their business continuity requirements in the short term, but also improving liquidity now and better position the firm for their future.*

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Law firms are rising to the challenges laid upon them and responding to swiftly maintain business continuity by shifting operations to remote working, and procuring the technology and equipment that's required to put it all together and provide uninterrupted legal services to their clients. It is an enormous undertaking and will continue to have ebbs and waves of deployment, learning new systems, and responding to new information as workflow and client needs become clearer.

Since we don't have 100% clarity on what that process will look like, law firms need financial flexibility as they implement new technology and equipment, while being required to conserve capital and increase cash on hand for currently unidentified projects. These realities align with the benefits of leasing and financing — and this is exactly what we are helping our law firm clients with right now, regardless of size, geographic presence, or practice specialty.

Below are just five options available that leasing and financing can help law firms not only to deploy their business continuity requirements in the short term, but also improving liquidity now and better position the firm for their future.

## **1. Leverage Leasing and Financing to Improve Liquidity**

Whether in times of prosperity or in times of crisis, liquidity matters. Liquidity enables law firms to invest in long-term opportunities such as acquisition of competition, real estate purchases, new employee expansion, as well as catastrophic survival.

Today in response to work from home needs, firms are leveraging leasing and financing options as the go-to strategy for firms to manage unbudgeted costs of laptops, desktops, and any variety of assets.

This extends to software as well. Financing software is a strategy that many firms can now leverage to ensure their planned or in progress software projects remain on track and on budget. Many firms are still in the transitional phase as they migrate or upgrade their financial systems software.

Mission critical systems like firms' financial systems can't be put on the backburner, as they represent enhanced future productivity. Firms can benefit from a finance package that encompasses the full scope of the project.

## Key Benefits of Financing Software to Consider

- Monthly expense vs. total cost. Monthly payments may secure a more cost-effective solution over the life of a lease.
- Spreading costs over a 36-to-60-month lease is less taxing on cash reserves, allowing partner distributions to proceed regularly.
- Software costs also carry associated soft costs that may not be factored into an outright purchase price.
- Financing terms may offer more flexibility and incorporate upgrades that would otherwise pose additional after-purchase costs.
- Deferred payments are an option in some cases
- Related hardware concerns. Law firms support complex information technology infrastructures and may discover that additional hardware and software upgrades are required. Leasing and financing wraps this into a streamlined package and smooths out unbudgeted expenses.

## 2. Lease Restructures and Onerous Terms and Conditions

Lease restructures are a time-tested financial strategy to put cash back into your firm. There are a couple of factors to consider here, one of which is whether your current lease agreements provide adequate flexibility, as well as the useful life of the assets.

The total cost of your Master Lease Agreement (MLA) is not solely determined by the lease rate. Some MLA's contain onerous terms and conditions that significantly increase the true total cost to your firm. We proactively educate the market about many of these leasing land mines including potentially onerous terms and conditions. Here are a few of which to be aware:

- Fair Market Value Purchase Option for Software and Services. A leasing company that asks for the Fair Market Value for software and/or services financed either by themselves or as part of a hardware package can be extremely expensive. The Fair Market Value that Lessor can charge you the replacement value of the software. Financing implementation services and software financed on a lease can provide a way to stretch these costs out over a term. However having these fully amortized during the lease term and then added to the cost of hardware at the end of that term could be a negative outcome for your firm.
- Extended Pro-Rata Rental Periods. Installation of a project takes time. However some Lessors will charge you rent for equipment as it is installed, which can run six months or longer, and in some cases over a year in duration. This can make a lease transaction much more expensive than you originally realized. It can turn a three year lease into something closer to a four year transaction, at a higher, three year lease rate.
- Difficult or Tricky End of Term Notice Provisions. Some lessors want a written notice of that has to be given in a 30 day (or less) window, many times between 240 and 210 days prior to lease end. If you miss this window your options go away and the lease renews for six to 12 months at the original lease rate.
- Late Return Equals Notice Cancellation. Contracts that stipulate that returning equipment late, anything over 10 days beyond the end of the lease term on one lease negates your notice and you have a one year renewal. This absurd, but it happens.
- No Return Provision at End of Term. Customer must purchase the equipment or extend the lease. Some contracts that look like three years end up in reality being three and a half or four years long. Do you want to be stuck with obsolete technology?

A great way to find out the total cost of ownership of your agreements — and the effect of these terms and conditions on costs — is our lease analyzer. This is a complimentary, unbiased tool that calculates the end cost of your agreement but includes the lease rate and terms and conditions and can be accessed here: <https://coretechleasing.com/about/custom-lease-analyzer/>

### **3. Sale Leasebacks and Tax Incentives**

Sale leasebacks is a strategy that we are working on with our clients to inject capital back into their firm from equipment they already own and can really help offset un-budgeted expenses. One Am Law 100 client we work with was able to recently refinance their office equipment and gain \$5 million back in liquidity.

Section 179 accounting rules help leasing and financing customers save money on taxes at the end of the year. The Section 179 passage means that for most small businesses the entire cost of qualifying equipment can be written off on the 2019 tax return (up to \$1,000,000.)

Here's what you need to know to create your own tax break for 2020:

- The Deduction Limit for Section 179 for 2020 Is \$1,040,000. This means that if you buy (or finance) a piece of equipment, you can deduct the Full Purchase Price (up to \$1,040,000) from your gross income.
- The 2020 Section 179 Deduction Threshold for Total Amount of Equipment that Can Be Purchased Is \$2,590,000. This means that you can purchase more equipment and still have the benefit of the Section 179 deduction.
- 100% Bonus Depreciation Was Reinstated. Bonus Depreciation is useful for firms spending more than the Section 179 spending cap (currently \$2,590,000) on new capital equipment.

Combining sale leasebacks, tax savings and other benefits with the scalability of the new technology acquired increases productivity, while you are adding to your bottom line, all at the same time.

### **4. Choose a Lessor That Is Able to Be Creative and Responsive**

There are three types of entities that can provide your organization with lease financing: independent lessors, captive/OEM's or banks.

Captive lessors will seek to maintain account and platform control which may take priority over providing flexibility and the best value to the end-user.

Banks often do not offer Fair Market Value leases, increasing the Total Cost of Ownership for your organization's technology acquisitions. A well-structured Fair Market Value lease can provide up to 15% for purchasing power than buying with cash.

An independent lessor is the most unbiased financial option as we are vendor neutral. This means your firm is in control of procurement and you can reap the benefits of platform flexibility throughout the lease lifecycle. When it comes to seeking custom solutions that optimize flexibility, an independent lessor is going to be the best choice in both the short and long term.

### **5. Cut Long Term IT Costs With Asset Management**

Acquiring technology is only half the battle of what law firms are up against, especially as the newly acquired technology leaves the security of the firm's physical confines.

Asset Management is all about maintaining control and compliance of technology by your firms' employees.

Asset management platforms and user policies not only help bolster the firm's security, but also reduce the firm's costs in the long run. Even more important than finance costs, unmanaged equipment controls can cause unexpected budget leakage.

CTO's and IT professionals can use asset management to audit in real time the location, lease expirations, equipment users assigned to assets, and warranty specific information that would inform better decisions from IT staff.

Asset management puts the information needed in the customers' hands to manage all their equipment and to be proactive in making better business decisions. Knowing that your assets are secure and being used as intended.

### **Conclusion: Flexibility Is Key**

These are the challenges we face now — and the only thing we know with guaranteed certainty is that things will continue to change as we rise to the challenges laid before us. Great challenges are always met with great opportunities. Ensuring the firm has the flexibility and liquidity to seize the challenges when they come is an important part of the solution as every firm reaches forward to the future.

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