

Should I buy or lease a car?

Answer:

There is no definitive answer--you must determine which option works best for you. Use these simple guidelines to help you decide. How long will you keep the car? Leases typically run two to four years. If you like the idea of driving a new car every few years, consider leasing. If you prefer to keep a car until you drive it into the ground, or like the idea of ownership because it gives you equity in the car, consider buying. How large of a monthly payment can you afford? When you buy a car, your payments are based on the total purchase price of that car. Compare this with leasing, where your payments are based on the car's expected decrease in value over the term of the lease (its depreciation). The lease payments may be low enough to put you behind the wheel of your dream car, without the need to worry about a down payment. Usually, you will only need to come up with your first payment and a security deposit to secure a lease. How will you treat the car? Analyze your driving habits. A typical lease will include 12,000 to 15,000 miles per year. If you exceed this amount, you may have to pay extra (e.g., \$0.15 per mile) at the end of your lease. Therefore, if you travel great distances for work or intend to take any cross-country trips, buying may be the better option. Also, consider your surroundings. Most lease agreements allow only normal wear and tear. If you know you are tough on your car, or if you live in a neighborhood with only on-street parking, a lease may not be right for you. Remember, if you lease a car, you must pay for any nonwarranty repairs (e.g., a dent in the door), but those repairs benefit the leasing agency, not you. When you buy a car, it's yours to do with as you please--you decide if the dent in the door gets fixed.

IMPORTANT DISCLOSURES

The information presented here is not specific to any individual's personal circumstances. To the extent that this material concerns tax matters, it is not intended or written to be used, and cannot be used, by a taxpayer for the purpose of avoiding penalties that may be imposed by law. Each taxpayer should seek independent advice from a tax professional based on his or her individual circumstances.

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