CARDAMOM PLANTERS' ASSOCIATION COLLEGE

(Re-accredited with 'B' Grade by NAAC)

Pankajam nagar, Bodinayakanur – 625 582

PG and research department of commerce

Make or Buy
Own or Lease

Dr.V. KRISHNAKUMAR,Ph.D.,

Assistant Professor,

PG and research department of commerce

CPA College Bodinayakanur.

Taxation

Tax planning and Specific Management decisions

In management, make or buy and own or lease decisions are critical for optimizing costs, resource allocation, and operational efficiency. Here's how tax planning and other considerations influence these specific decisions:

a) Make (or) Buy decision

This refers to whether a company should produce goods (or) services internally (make) or outsource them (buy). Factors that influence this decision include cost, control, quality, capacity and tax implications.

1. Tax consideration in Make (or) buy

Depreciation and Capital Investment

If the company chooses to "make" (produce in-house), it might need to invest in equipment and facilities. The capital investment may be depreciated over time, reducing taxable income through depreciation deduction.

Operating costs

Internal production often results in deducting direct and indirect costs (e.g., labour, materials) from taxable income, potentially lowering the overall tax burden.

Outsourcing costs: If the company decides to "buy" (outsource), the payments made to suppliers or contractors are generally tax-deductible as business expenses.

Tax incentives: Certain tax credits or incentives may be available for in-house production, especially if it involves research and development (R & D) or innovation. Tax jurisdictions might also offer incentives for local manufacturing.

Other considerations

Cost: comparing the total cost of producing in-house (labour, equipment, overhead) with the cost of outsourcing to a third party.

Control: In-house production offers more control over quality, delivery and intellectual property, while outsourcing might reduce these controls.

Flexibility: outsourcing may offer more flexibility in scaling production up or down based on demand

Expertise: if a company lacks the expertise to produce certain components buying from a specialised provider might be more efficient

Own or Lease Decision

This decision refers to whether a company should purchase an asset (e.g., equipment, property) or lease it from a third party. Both options have significant financial and tax implications.

1. Tax considerations in own (or) lease

Depreciation for ownership: if the company chooses to 'own' it can claim depreciation on the asset, reducing taxable income over time. This is especially beneficial if the asset has a long useful life.

Interest Deduction: if the asset is purchased through financing (e.g., a loan or mortgage), interest payments on the loan may be deductible, providing additional tax savings.

Lease payment Deductions: In a leasing arrangement, lease payments are typically deductible as an operating expenses. This provides immediate tax savings without the need to wait for long-term depreciation.

Tax credits: Some assets (e.g., renewable energy equipment) may qualify for specific tax credits or incentives if owned rather than leased.

Other consideration

Cost: owning usually requires a significant upfront capital investment, while leasing spreads the cost over time. leasing can help preserve cash flow, but may be more expensive in the long run.

Asset Appreciation / Depreciation: when owning an asset, a company may benefit from its appreciation (e.g., real estate). conversely, owning an asset that depreciates quickly (e.g., technology) may result in a financial loss.

Flexibility: leasing offers more flexibility, allowing companies to upgrade or change assets without being tied down by ownership. this is especially useful for assets that become obsolete quickly.

Maintance and responsibility: when owning, the company is responsible for all maintenance, insurance, and repair costs. leasing often includes maintance and may reduce operational burdens.

Summary

Make or buy: the decision is influenced by factors like cost, control and tax benefits such as depreciation and deductions for production costs or outsourcing fees.

Own or lease: this decision depends on cash flow, long-term financial goals, and tax implications such as depreciation for owned assets versus the immediate deductibility of lease payments.

Both decision require careful evaluation of the long-term financial, operational and tax impacts to maximize business value