

Determinants of Corporate Leasing Policy

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First published: July 1985

<https://doi.org/10.1111/j.1540-6261.1985.tb05016.x>

Citations: 178

ABSTRACT

The existing finance literature assumes the real operating cash flows from leasing or owning are invariant to the ownership of the asset and focuses on tax-related incentives for corporate leasing policy. Our analysis suggests that taxes are important in identifying potential lessees and lessors, but are less important in identifying the specific assets leased. We provide a unified analysis of the various incentives affecting the lease-versus-purchase decision. We then show how these incentives explain the use of contractual provisions such as maintenance clauses, deposits, options to purchase the asset, and metering.

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