

# Buying vs. Leasing a Car

Some people approach buying a car like they approach marriage, "til death do us part." Others prefer to keep their options open, trading in every few years for the latest make and model, the most cutting-edge technology, or the highest horsepower. Whichever describes you best, we all face a similar decision when it comes to acquiring a car: finance, lease, or pay cash.

When shopping for new vehicles, about one-quarter of consumers choose to lease, while the majority choose to finance. From an investment perspective, which choice is best? That depends on your lifestyle, cash flow, and personal preferences.<sup>1</sup>



For many, paying cash for a car is the simplest way to get one. When you drive off the lot, you own the vehicle outright and are free to do whatever you want with it. You face no penalties or mileage restrictions, and you have no monthly payments. However, you have paid cash for a vehicle that is expected to depreciate over time.

Financing a new car requires a smaller initial outlay of money, usually 20% or more of the vehicle's value, in the form of a down payment. When you drive off the lot, the bank owns the car, not you. As with most loans, you make monthly payments of principal and interest with the promise of eventual ownership. The amount of your payment depends on a variety of factors, including the value of the car, the length of the loan, and the interest rate offered by the lender. Car dealers sometimes will offer "no money down" or low annual percentage rate loans, which can make financing more manageable.<sup>2</sup>

If you like to have a new car every few years, leasing is an approach to consider. Leasing a car is like renting an apartment. You pay a monthly fee to use the car for a specific amount of time, usually three to four years. Monthly payments are typically lower than when you finance since you are paying for the depreciation on the car while you drive it. In certain situations, lease

payments may also have tax considerations. However, there are caveats to leasing. For one, a lease typically stipulates the number of miles you are permitted to drive during the course of the lease. At the end of your lease, you may face penalties if you have exceeded the total number of miles in the contract.<sup>3,4</sup>

Whatever your relationship with your car, it may eventually come time for a new one. Familiarize yourself with your options. You may find that changing your strategy makes sense in light of your lifestyle or financial situation.

1. Experian.com, March 5, 2026
2. Investopedia.com, January 6, 2026
3. The information in this material is not intended as tax or legal advice. It may not be used for the purpose of avoiding any federal tax penalties. Please consult legal or tax professionals for specific information regarding your individual situation.
4. Bankrate.com, July 28, 2025