



Leasing Basics

What is a lease?

A contract to use equipment for a specified length of time at an agreed upon payment.

Lessor (Finance Company)

Owner / Secured Party of the Equipment

Lessee (You/Your Company)

User of the equipment

***80% of U.S. Companies use leasing
to acquire capital asset equipment***



Leasing Products

The Broad spectrum of leasing product option include:

- Tax-Oriented Leases (FMV Leases)
- Non-tax (Finance) Leases
- TRAC Leases
- Operating Leases
- Municipal Leases



Leasing Products

Tax-Oriented Leases

- A tax-oriented lease is a lease under which the lessor will be treated by the IRS as the owner of the leased property for federal tax purposes and permitted to take tax benefits (eg., depreciation deductions on the leased property)
- Tax-oriented leases are sometimes referred to “true leases” or “guideline leases”
- Given that the lessor takes advantage of the tax benefits under a tax-oriented lease, a lessor should be able to offer lower rental payments to a lessee than on a similar term finance or loan transaction



Leasing Products

Tax-Oriented Leases

The following guidelines must be met for a tax-oriented lease to qualify as a true lease under IRS requirements.

1. The lease term (including extensions and renewals) must not exceed 80% of the estimated useful life of the equipment at the commencement of the lease transaction
2. The equipment's estimated residual value at the expiration of the lease term must be projected to equal at least 20% of its original value
3. Neither the lessee nor any related party can have a right to purchase the property from the lessor at a price less than its fair market value at the time of the purchase
4. Neither the lessee nor any related party can pay, or guarantee payment of, any part or piece of the leased equipment. Simple put, the lessee cannot make any investment in the equipment.
5. The leased equipment must not be "limited use" property. Equipment is limited use property if no one other than the lessee could use the equipment in a commercially feasible manner at the end of the lease term



Leasing Products

Non Tax-Oriented Leases

- Generally, a non-tax oriented lease is any lease that is neither a “guideline lease” nor a TRAC lease. Because it is not a lease for tax purposes, it need not comply with any IRS guidelines
- Finance leases or \$1.00 buy-out leases
- The lessor may still be listed as the titled owner on a vehicle but it is not the owner for federal tax purposes



Leasing Products

TRAC Leases (Lease Purchase)

- Tax-oriented leases, of qualified motor vehicles and trailers, with terminal rental adjustment clauses (“TRAC’s)
- A TRAC lease must meet all of the requirements for a guideline lease, except for the TRAC provisions
- The TRAC provisions permits an adjustment of rentals according to the amount realized by the lessor upon the sale of the leased equipment.
- The TRAC provision allow the lessee to benefit in two ways. First, the lessee shares in the residual sales value of the equipment, Second, because the lessee effectively guarantees the equipment’s residual value, the rentals to be paid during the lease term may be lower than otherwise available.



Leasing Products

Operating Leases

- An operating lease is a lease that for accounting purposes is off-balance sheet. It does not satisfy any of the criteria of a “capital lease” as set forth in FASB 13.

Municipal Leases

- Tax-exempt financing for federal, state or local municipalities including most school districts and some 501c organizations.
- Interest rate is significantly lower than a commercial lease since the Lessor is exempt from taxes on the interest earned.