



Leasing from a Tax Perspective

From a Tax Perspective

The IRS classifies a lease as either a "True Tax Lease" or "Non tax lease." The IRS seeks to determine whether the risks and benefits of ownership are transferred to the lessee. Here are the guidelines the IRS utilizes in order to classify a lease:

- The leased equipment cannot be "limited use" property
- No right to purchase the property for an amount less than fair market value
- Lessee cannot guarantee payment of any part
- **All of the above must apply for the lease to qualify as a true lease**

True Tax Lease

The lessor is the owner of the equipment for federal income tax purposes. The lessor receives the right to the tax benefits of ownership, including depreciation and any tax credits. The lessee receives a tax benefit by being allowed to claim the lease payment as an operating expense deduction thus lowering a businesses taxable income. Fair Market Value and 10% purchase option leases qualify as true tax leases.

Non Tax Lease

The IRS treats the lease as if it were a purchase or loan for tax purposes. The lessee receives the same tax benefits as ownership. That means a customer is entitled to claim depreciation and interest expense deductions in lieu of claiming the lease payment as an operating expense deduction. A major benefit of a Non Tax Lease is that it can take advantage of Section 179.



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Taking Advantage of Section 179

Businesses are always trying to minimize their tax liability. Under Section 179 of the IRS tax code, businesses that spend less than \$450,000 a year on qualified equipment, can write off up to \$112,000 of those purchases in 2007. The \$112,000 deduction phases out when companies purchase more than \$450,000 of qualified equipment in 2007. Please note the equipment must be put into use in 2007 and the total cost of equipment that may be expensed cannot exceed a businesses taxable income.

How a Non Tax Lease can minimize your tax liability

A major benefit of a Non Tax lease is that business can take advantage of Section 179 and expense up to \$112,000 of qualified equipment that was put in use in 2007.

Let's look at an example:

Business A finances \$100,000 worth of business equipment and puts it in use in January 2007 and is eligible to take advantage of the entire Section 179 deduction.

Compare tax benefit Section 179

	Section 179	Traditional Depreciation (5 year depreciation schedule)
1st Year deduction	\$100,000	\$20,000 (\$100,000/5)
1st Year Tax Benefit (Assuming 35% tax Rate)	\$35,000	\$7,000

**Please consult your tax advisor regarding any tax and accounting questions.