

# Types of Leases

## Finance Lease

A finance lease is a full - payout noncancelable agreement. You are responsible for maintenance, taxes and insurance. The benefit of this lease type is that advantage of IRS Section 179 and expense up to the amount allowed for the year the equipment is installed. You may depreciate any excess on the depreciation schedule for that particular asset.

- **\$1.00 Buyout Lease.** Allows you to own the equipment at the end of the term of the lease.

**Example:** The equipment is installed in 2001 or 2002 and the cost is \$35,000. Using IRS Section 179 and assuming a 33% tax bracket, your tax savings would be  $\$24,000 \times .33 = \$7,920$  plus the depreciation value on the remainder of the \$11,000.

## Tax Lease/True Lease

A tax lease or true lease are leases for which the lessor retains ownership and you as the lessee may be allowed to claim the entire amount of the monthly investment as a tax deduction. Many rental contracts qualify as a true lease.

- **10% Purchase Option Lease.** Allows you to either purchase the equipment at the end of the term for 10% the original cost of the equipment, or return the equipment to the finance company.
- **Fair Market Value Lease (FMV).** Provides the lowest monthly payment. When the term is completed, you can either purchase the equipment for the fair market value, or return the equipment to the finance company.

**Example:** Monthly investment is \$1,000. Term is 36 months. Assuming a 33% tax bracket, your monthly tax savings would be  $\$1,000 \times .33 = \$333.00$ . Total tax savings over the term of the contract would be \$11,988.00.

Call us at the numbers listed on the back of this brochure and we will work with you to structure a plan that will work best for you and your business.

## IRS Section 179

Under IRS Section 179, equipment purchases, up to the amount shown below, can be expensed (deducted from taxable income) if installed by December 31st. Finance leases qualify for this deduction in their year of inception.

Any excess above the expensed amount can be depreciated over 5 to 7 years depending on the equipment type.

The maximum amount of asset cost that can be expensed by year is:

- \$24,000 for 2001 or 2002
- \$25,000 for 2003 and each year afterwards

For example, if you purchase or lease a piece of equipment for \$25,000 and install it in 2001 or 2002, you are eligible to take a \$24,000 tax deduction in the respective year. The remaining \$1,000 can be depreciated over the life of the asset.

# 1208. Election to Expense

## Certain Depreciable Business Assets

An expense deduction is provided for taxpayers (other than estates, trusts or certain noncorporate lessors) who elect to treat the cost of qualifying property, called Sec. 179 property, as an expense rather than a capital expenditure. The election, which is made on Form 4562, is to be attached to the taxpayer's original return (including a late filed original return) or on an amended return filed by the due date of the original return (including extensions) for the year the property is placed in service and may not be revoked without IRS consent [94FED, 12, 120]. Employees may make such election on Form 2106.

For 2001 and 2002, the maximum Code Sec. 179 deduction is \$24,000. The \$24,000 ceiling is reduced by the excess cost of qualified property placed in service during the tax year over \$200,000.

The total cost of property that may be expensed for any tax year cannot exceed the total amount of taxable income (determined after application of the investment limitation) derived from the active conduct of any trade or business during the tax year. Costs disallowed under this rule may be carried forward an unlimited number of years subject to the ceiling amount for each year. To qualify as Code Sec. 179 property, the property must be Code Sec. 1245 property depreciable under Code Sec. 168 and property that is acquired by purchase for use in the active conduct of a trade or business.

An enterprise zoned business (Code Sec. 1397B) is entitled to an increased Code Sec. 179 deduction. The standard \$24,000 annual limitation is increased by the Lessor of (1) \$20,000, or (2) the cost of section 179 property which is qualified zone property placed in the service year.