Premier Farm Credit
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Colorado State University Premier Farm Credit STUDENT BOARD of DIRECTORS
2018-2019 Student Project

Introduction to Leasing

What is a Lease?

A lease is a written contract between an owner (lessor) and a customer (lessee) to pay for usage on an asset such as farm machinery in the form of rental payments. Usually for a specified amount of time, with an option to return at the end of lease.

Types of Leases

- Capital Lease – Lessor finances the leased asset and all rights of ownership are transferred to the lessee.
- Operating Lease – Permits the use of the asset by the lessee but does not transfer ownership rights of the asset to the lessee

"True Lease" Qualifications

For the IRS to recognize a lease for Tax purposes, the lease must:

- Title cannot pass automatically at the end of the lease
- Max lease term less than or equal to 80% of Useful Life.
- Lease must be for profit making
- Lessee may not hold title or have equity in leased item during the lease term.

Additional Costs of Leases

- The Lessee is usually responsible for insurance, maintenance, and all other costs associated with ownership.
- Lease Term end costs and fees
- Lessee can be responsible for repairing any severe or additional damage done to machinery while leasing.

Things to consider when deciding to lease or purchase

- Is ownership a priority for me?
- What are my cash flow needs?
- How long will I need the equipment? What will my use of the equipment look like? Hours, type of work, etc.
- What is my tax situation? Have I talked to my tax advisor?
- Is running the newest equipment and technology important to me?
- Am I educated on all the options? Current Interest Rates, lease costs, etc.

What can be leased?

Ag Production Equipment

- Tractors & Harvesters
- Implements
- Fertilizer & Chemical Applicators
- Livestock Equipment
- Irrigation Equipment

Buildings & Grain, Feed, Fertilizer & Seed Storage & Handling

- On Farm Buildings
- Greenhouses
- Commodity Storage & Handling
- Feed Mills
- Fertilizer Blending & Handling
- Seed Bins & Handling

Material Handling & Construction

- Forklifts
- Telehandlers
- Skid Steer Loaders
- Trenchers

Transportation

- Autos, SUVs & Light Duty Trucks
- Medium & Heavy Duty Trucks
- Semis
- Trailers

Utility, Communication & Energy

- Switching Equipment
- Fiber Optics
- Generators & Transformers
- Broadband Equipment

Renewable Energy

- Solar Arrays

No matter what you are leasing, it is important to know all the details of your lease. Be sure to read the agreement completely and understand any and all costs associated with the lease.

Lease versus Loan Comparison

	Advantages	Disadvantages
Cash	- Equipment is owned outright from the purchase date - There is less paperwork - No interest or fees	- Decreases excess cash and working capital. - Investing in assets to grow your business is typically worth more than the cost of financing.
All Leases	- No down payment. Only the first lease payment is required. - Payments can be customized to better represent the cash flow. For example, a large lease payment could be due after harvest season. - Frees up working capital because the producer essentially only pays for the portion of the lease used. Can use this operating capital towards something else for greater benefit. - Replace equipment faster and keep up with new technology.	- Leased equipment may not be included as an asset on your balance sheet (this may vary based on lease type) - Lease terms typically include hour restrictions. - Hidden/Unexpected costs associated with the lease, including costs of damages and repairs or handling fees. - Residual payments can be high on depreciated pieces of equipment.
Finance or Capital Lease	- Payments build equity in the asset - Usually lower purchase option - Depreciation on the asset is tax deductible.	- Not considered a "True Lease". Lease payments are not tax deductible. - Additional risk of ownership
Operating Lease	- Off-Balance Sheet Financing - Lower payments - Payment is tax deductible - Paying only for equipment usage - Newer equipment with less downtime for repairs - Lower maintenance costs - Can return equipment or exercise purchase option	- Hour restrictions - May be responsible for any damages at maturity - Cannot deduct depreciation - No ownership if purchase option is not exercised at the end of the lease term.
Loan	- Pride in ownership of assets - Owned assets can be depreciated for tax benefit. - Interest portion of payments can be deducted. - Equipment is shown as an asset on your balance sheet and can increase your net worth. - Tangible Asset that can be sold. - With adequate collateral, 100% financing is possible.	- Interest rates can increase costs especially over extended durations of time. - Experience a large amount of Depreciation Expenses on Balance Sheet. - Decreased value when trying to trade off or sell aged Equipment. - If you do not want to provide additional collateral, down payment may require more cash up front than a lease. - Typically updated less frequently than leased equipment, causing higher maintenance costs and less up to date technology.

*** Be sure to consult your tax, accounting and/or legal advisor before entering any lease agreement to choose the right type of lease for your situation. Different types of leases have different tax implications.**