You Should Know

News Item: The Tax Reform Act of 2017 impacts asset finance strategies

Key issues in tax reform impacting the quantitative lease vs buy calculation:
IRS tax rate dropped from 35% to 21%
100% bonus MACRS (immediate depreciable asset deduction) phases down to 20% in 2026
Interest expense deduction capped at 30% of adjusted taxable income
Lease rent is fully deductible
NOLs cannot be carried back
NOLs have no expiration date
NOL utilization limited to 80% of taxable income

Lease Structuring Opportunities:

For companies with NOL/interest deduction issues: Tax leases and TRAC leases structured as operating leases are favorable as the lessor takes the MACRS deductions and the rent, as opposed to interest cost, is fully deductible. The leases can be structured with fixed price purchase options which fix the cost similar to a loan financing. The off balance sheet structure frees up costly capital.

For companies with no NOL/interest deduction issues: Synthetic operating leases are favorable as the asset and liability are off balance sheet yet the lessee/customer take the MACRS and interest deductions. The off balance sheet structure frees up costly capital.