

# 2017 equipment leasing and finance association

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Understanding Equipment Finance and Leasing\*\*

### **What is Equipment Finance and Leasing?**

Equipment finance and leasing are financial solutions that allow businesses to acquire equipment without paying the full cost upfront. Financing involves obtaining a loan, while leasing involves renting the equipment for a fixed period.

### **Who Owns the Equipment in a Finance Lease?**

In a finance lease, the leasing company owns the equipment and transfers ownership to the lessee at the end of the lease term.

### **Models of Equipment Financing**

- **Finance Lease:** A type of lease where the lessee assumes all risks and benefits of ownership.
- **Operating Lease:** A type of lease where the lessor retains ownership and the lessee uses the equipment for a specified period.
- **Sale and Leaseback:** Selling existing equipment to a leasing company and leasing it back.

### **Types of Equipment Financing**

- **Term Loans:** Loans with fixed terms and interest rates.
- **Lines of Credit:** Rotating loans that provide access to funds as needed.

- **Leases:** Contracts that allow businesses to rent equipment for a specific period.

## **Equipment Leasing vs. Rental**

Equipment leasing involves long-term contracts, while rental involves short-term agreements. Leasing typically includes maintenance and insurance, while rental does not.

## **End of Equipment Lease**

- **Purchase Option:** Lessee has the option to purchase the equipment at a predetermined price.
- **Renewal:** Lessee can extend the lease term for an additional fee.
- **Return:** Lessee returns the equipment to the lessor.

## **Is a Finance Lease an Asset or Liability?**

In a finance lease, the equipment is categorized as an asset (capitalized lease) on the lessee's balance sheet. The corresponding liability is the lease obligation.

## **Is Equipment Financing a Term Loan?**

Yes, some types of equipment financing, such as term loans, are considered term loans.

## **Typical Terms for Equipment Financing**

- Terms range from 12 to 84 months.
- Interest rates depend on factors such as creditworthiness and equipment type.
- Down payments or lease initiation fees may be required.

## **What is a Finance Lease for Equipment?**

A finance lease is a type of equipment lease where the ownership of the equipment is ultimately transferred to the lessee.

## **Is Equipment Financing Tax Deductible?**

Yes, lease payments and loan interest on equipment financing are typically tax-deductible.

## **Are Equipment Loans Hard to Get?**

The difficulty of obtaining an equipment loan depends on factors such as credit history, business financials, and equipment type.

## **What Does an Equipment Loan Cover?**

Equipment loans cover the purchase or lease of equipment, including machinery, vehicles, and technology.

## **Can Leased Equipment be an Asset?**

Yes, leased equipment can be considered an asset on the lessee's balance sheet if it meets the conditions of a capitalized lease.

## **How Does Lease Financing Work?**

Lease financing involves a three-party transaction: the lessor, the lessee, and the manufacturer/supplier. The lessor purchases the equipment and leases it to the lessee.

## **Conditions for a Finance Lease**

- The lessee assumes substantially all the risks and rewards of ownership.
- The lease term is equal to most or all of the asset's useful life.
- The lessee has an option to purchase the asset at the end of the lease term.

## **How Do Equipment Leasing Companies Make Money?**

Equipment leasing companies make money through lease payments, which include an interest component and a return on their investment.

## **Advantages and Disadvantages of Equipment Leasing**

### **Advantages:**

- Conserve cash flow.
- Upgrade equipment more frequently.
- Tax benefits.

### **Disadvantages:**

- Limited customization options.
- Early termination fees.
- Can be more expensive than purchasing outright.

### **What Type of Equipment Can be Leased?**

Almost any type of equipment can be leased, including:

- Machinery
- Vehicles
- Technology
- Medical equipment

### **Difference Between Leased and Financed**

- **Ownership:** In leasing, the lessor retains ownership, while in financing, the borrower obtains ownership.
- **Term:** Leases typically have fixed terms, while financing terms can be longer or shorter.
- **Tax Implications:** Lease payments may be tax-deductible, while interest on financing is typically tax-deductible.

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