

Operating Lease vs. Capital Lease

Operating Lease: also called: FMV, True Lease, Tax Lease, Off-Balance Sheet Lease

- Lessee has NO intent to purchase equipment at lease end.
- Lessee Wants use of the equipment only for the term stated.
- At the end of the term the Lessee may:
 - a) Purchase equipment for FMV (Fair Market Value – determined at end of lease).
 - b) Return the equipment.
 - c) Continue on a month to month basis.
- Lessor is the OWNER of the equipment: Lessor claims the depreciation.
- Lessee will not have to show as an asset & liability on their financial statements.
- Lessee can expense the monthly payment (treated like a rental) on their income statement.

Remember: To qualify as a “true operating lease” the lease must meet all the FASB and IRS Tax guidelines.

Capital Lease: Non-Tax lease, \$1.00 Buyout, Guaranteed Purchase Options

- There is intent of ownership by Lessee (you intend to own at end of lease).
- Lessee claims the depreciation benefit & interest on your income statement.
- Lessee must list as an Asset & Liability on your balance sheet.
- Lessee does not expense the monthly lease payment.

**Lessee should always consult with their accountant for proper financial and tax treatment on each lease transaction.