100% Financing

Leasing provides 100% financing while a typical loan arrangement may require an initial downpayment or it may not incorporate additional expense items such as shipping and installation charges.

Budget Restrictions

Acquisition of equipment not contemplated by a capital expenditure budget can sometimes be accomplished through the use of a lease, with lease payments structured to qualify as an Operating Lease.

Improved Return on Assets

Many companies place heavy emphasis on Return on Assets (ROA) for measuring the success of a profit center. Generally, Operating Leases have a positive impact on the ROA of a profit center.

Protection against Obsolescence

A lease can allow you to have the use of needed equipment while shifting the risk of obsolescence to the Lessor.

Competitive Advantage

Operating a cost effective lift truck gives you a competitive advantage, and leasing can help you obtain the lift trucks you need. Capital fuels your operation, and leasing conserves capital. Cost-effectiveness, convenience, and flexibility are the elements of equipment leasing. Why not take advantage of a lift truck lease from Hyster Capital today?

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A LEASE EXPLAINED

The Long and Short of just What is a Lease?

True Lease. Tax Lease. Operating Lease. Capital Lease. FASB 13. Depreciation. MACRS. Return on Assets (ROA). The list goes on and on. To the person who doesn't work with leasing or financing on a regular basis, the terms and concepts can often be intimidating as well as confusing. This guide has been designed to provide you with some basic background information on leasing concepts as well as the benefits of leasing. Prior to making any decisions regarding leasing, customers should always check with their financial or tax advisers to determine the possible implications for their company.

A lease is a contract. By its terms, one party (the "Lessor") gives another party (the "Lessee") the exclusive right to use and possess its equipment (the "leased property" or "leased equipment") for a specified period of time. In recent years, equipment leasing has become an accepted and economical financial alternative. A lease can finance the acquisition of equipment and act as an additional source of working capital. In this respect, leasing serves as an attractive alternative to traditional debt funding.

A lease contract may evidence a single transaction involving one or more items of equipment, or it may be a "master" lease governing a continuing lease arrangement, with the specific terms and conditions of each specific transaction outlined in a separate lease schedule. In either case, the Lessee is required to make periodic payments (or "rentals") to the Lessor for the use of the equipment.

A lease is typically a net lease transaction, which means the Lessee has a non-cancelable obligation to pay rentals for the term of the agreement. Leases generally contain contractual provisions requiring the Lessee to pay all taxes, insurance costs, maintenance costs, and other expenses related to the equipment during the lease term. Because the equipment is in the Lessee's possession and control, the lease will provide that the Lessee bears all the risk of loss or damage.

Lease versus Loan - What are the Differences?

Ownership

In a true lease arrangement, the legal owner of the equipment is the Lessor, not the Lessee/user. In a loan, the owner of the equipment is the user/borrower. The lender, however, holds the title as security until the loan is repaid.

Stated Interest Rate

An interest rate is always stated in a loan. The borrower pays an interest charge and a monthly principal reduction. There is not an interest rate in a lease transaction however, because the Lessee is not borrowing money, but rather using the Lessor's equipment and in exchange has agreed to pay a monthly fee for that usage.

End of Term Purchase Options

In a loan transaction, the payment is based on the full cost of the equipment, or the amount borrowed. The Lender does not bear any risk of decrease or increase in the value of the equipment for which the loan was made. In a lease, the Lessor takes what is called a residual position. By doing so, the Lessor relies on the equipment having value at the end of the lease. The Lessor bears any risk associated with the increase or decrease in the equipment's value. The Lessee has the responsibility to maintain and use the equipment in the manner provided for in the lease. At the end of the lease the Lessee can generally (1) purchase the equipment for its then fair market value, (2) renew the lease, or (3) return the equipment to the Lessor subject to the return conditions specified in the lease.

Tax Benefits

Under a lease arrangement, the Lessor can generally claim certain tax benefits associated with ownership of the equipment and can pass those benefits along to the Lessee in the form of a lower monthly payment. A loan arrangement does not allow for the Lender to receive any tax benefits, however, the Lessee may generally take any depreciation deductions and claim any associated tax benefits.

Down Payment

Banks and other finance companies may require a down payment for loan transactions. By making a down payment, the customer has an equity investment in the equipment which reduces the amount of the loan and subsequently the lender's risk of loss. Generally, lease arrangements only require one or possibly two advance payments. This difference in up front cash requirements can be significant for many companies.

Sales/Use Tax Obligation

In a loan arrangement, the transactions is treated as a purchase and the sales tax is usually due up front. In a lease transaction, the tax is billed and collected by the Lessee on a monthly basis based on the monthly rental payment rather than as an up front payment. This may vary from state to state depending on the requirements of your local taxing jurisdiction.

Property Taxes

In most states, property taxes are due each year on all owned equipment. The owner of the equipment is responsible for payment of this tax. In a loan, the borrower has the responsibility to pay the property taxes directly to the taxing authority. In a lease transaction the Lessor is responsible for the property tax as the owner of the equipment, however, the lease documentation allows the Lessor to bill the Lessee for reimbursement.

Tax Lease versus Non-Tax Lease

For tax accounting purposes, a lease will either qualify as a "Tax Lease" or a "Non-Tax Lease." A tax lease is a lease under which the Lessor will be treated by the IRS as the owner of the leased property for tax purposes and permitted to take certain tax benefits associated with ownership of the equipment. Given that the Lessor can claim tax benefits, payments are generally lower under a tax lease structure. In addition, rentals paid under a tax lease arrangement are generally deductible by the Lessee for tax purposes. Not all agreements labeled as lease agreements are treated as tax leases by the IRS. Transactions such as conditional sales contracts or other loan arrangements would qualify as a non-tax lease and do not meet the guidelines for the transfer of any tax benefits. However, the Lessee may take any available depreciation or interest deductions. Consequently, the rental payments are usually higher than in a tax lease arrangement.

Capital Lease versus Operating Lease

For financial reporting purposes, a lease will either qualify as an "Operating Lease" or a "Capital Lease". This treatment is defined in FASB Policy Statement #13 as published by the Financial Accounting Standards Board. A lease qualifying as an Operating Lease is the simplest to account for since the Lessee can treat the rental payments as an expense. There is no need to reflect the asset on the balance sheet other than footnoting the amount of the fixed lease rental obligation in the notes to the financial statement. On the other hand, for a lease qualifying as a Capital Lease, the transaction is recorded on the Lessee's books as if it were a purchased asset and a corresponding liability recorded under the liability section. Each month the asset is amortized in accordance with the Lessee's normal depreciation procedure and the liability is reduced.

The Benefits of Leasing

For most companies, the most attractive benefit of leasing is its low cost. However, there are many other reasons why companies choose to lease rather than purchase equipment using conventional financing. Since each company's situation is different, we've listed a number of reasons to lease, any of which may be significant enough to justify using leasing as the most attractive financing alternative for you.

Lower Cost

The most obvious benefit to consider leasing is that it provides the low cost alternative when compared with traditional finance alternatives. Under a true lease arrangement, the Lessor can gain certain tax benefits that it can pass along to the Lessee in the form of reduced rental payments.

Cash Flow Improved

Lease payments can provide the Lessee with improved cash flow as compared to loan payments during the early years of use. When comparing a lease transaction to a loan transaction on a Net Present Value basis, the lease option will generally provide the most favorable position.

Off Balance Sheet Financing

A lease can be structured to be either "on" or "off" balance sheet for financial accounting purposes. The choice depends on the accounting objectives of the Lessee and other cost trade-offs the Lessee is willing to make to achieve such objectives.

Impact on Book Earnings

Lease payments will usually have less impact on book earnings than depreciation and interest payments associated with the purchase of the same equipment.

Loan Covenants

Depending upon the language and intent of covenants in your existing loan agreements, a lease may provide financing not otherwise permitted by other lending sources.

Fixed Lease Payments

Lease transactions permit a customer to more accurately predict future equipment costs and cash needs through a pre-determined payment schedule. The Lessee knows the exact amount of future payments and avoids the risk of fluctuations in borrowing costs.

Hedge Against Inflation

In an inflationary economy, future payments for equipment acquired through a lease, based on today's price, will be paid in inflated dollars. A Lessor has the ability for long term borrowing to protect itself from inflationary trends and can pass this protection to a Lessee in the form of long term level lease payments.

Payments Coordinated with Cash Flow

Within certain limits, payment schedules can generally be structured to coincide with earnings generated from equipment use. Seasonal activity patterns or projected business growth can be taken into consideration. Because the timing of lease payments can be arranged to follow normal business cycles, leasing offers a flexibility that may not be available to a Lessee with other financing methods.

Convenience

Leasing is often more convenient that alternate means of financing. Documentation is usually simpler and more flexible than other sources of capital, such as debt and equity.