Leasing: Contract where machine owner (lessor) grants control and use of machine to a user (lessee) for a specified time period.

a. Most leases are for 3 – 5 years.

b. Use formal written agreement.
   i. Payment rates & dates
   ii. Excess use penalties
   iii. Payment of repairs, taxes and insurance
   iv. Responsibility for loss or damage (not normal ware)
   v. Provision for early cancellation

c. May allow for purchase at end of lease. This is called a *Capital Lease*, rather than an *Operating Lease*.

d. To maintain tax deductibility, capital lease must:
   i. Make the purchase at the end of the lease optional
   ii. Purchase price approximately equal to market value of machine
   iii. Otherwise, it may be considered a sales contract or finance lease so lessee must depreciate machine and interest is deductible (rather than lease payment).

e. Advantages:
   i. Reduces the amount of equity capital required for machinery.
   ii. Lease payments may be lower than loan payments.
   iii. Reduces the risk of obsolescence.
   iv. Can be easier to maintain newer machinery.
   v. Farmers with low taxable net income may not be able to fully utilize 179 Expensing options.

f. Disadvantages:
   i. Not well established in some areas.
   ii. Desired model may not be available.
   iii. Late lease payment may cause cancellation of lease.
   iv. Early cancellation may have substantial penalties.

g. See Box 22-2 (pg. 433) for comparison between lease and purchase.