

		Accounting Books		Tax	
Controlling Entity		SFAS13		Revenue Ruling 55-540 and 2001-28	
Category		Capital Lease	Operating Lease	Finance Lease	True Lease
Subcategories		Direct Finance Lease, Sales Type Lease	Leveraged Lease	Full payout lease, Money-over-money, Conditional sale	Tax Lease
End-of-Lease Possibles if the lease passes the tests below		\$1 buyout	FMV purchase	\$1 buyout	FMV purchase
		Any fixed price purchase (PUT)		Any fixed price purchase (PUT)	FMV or <b>Greater than 10%</b> option to purchase*
<b>Tests</b>	<b>Test</b>	<b>Only needs to pass one of these tests</b>	<b>Must pass all tests</b>	<b>Only needs to pass one of these tests</b>	<b>Must pass all tests</b>
<b>1</b>	Residual at-risk investment required by Lessor	Present Value of lease payments <b>Greater</b> than 90% of purchase price	Present Value of lease payments <b>Less</b> than 90% of purchase price	<b>Less</b> than 1 year or 20% remaining useful life*	<b>Greater</b> than 1 year or 20% remaining useful life*
<b>2</b>	How long is the lease term?	<b>Greater</b> than 75% of equipment useful life **	<b>Less</b> than 75% of equipment useful life **	<b>Greater</b> than 80% of the equipment useful life*	<b>Less</b> than 80% of the equipment useful life*
<b>3</b>	Auto transfer of title	YES	Not allowed	YES*	Not allowed*
<b>4</b>	Bargain Purchase Option	YES	Not allowed	YES*	Not allowed*
<b>notes</b>	* Common practice only, This is NOT tax law. Use it as guidance only				
	** Generally not applicable for most equipment leases				

Further Informational Questions (not relating to the Accounting Tests)					
<b>a</b>	How is the asset reported on the Balance Sheet?	<b>Lessee:</b> depreciable asset.	<b>Lessee:</b> not reported	NA	NA
		<b>Lessor:</b> as a receivable (all payments less unearned income)	<b>Lessor:</b> depreciable asset	NA	NA
<b>c</b>	Who depreciates (amortizes) the equipment?	Lessee	Lessor	Lessee	Lessor
<b>d</b>	How is the Profit/Loss recorded by the <b>Lessee</b> ?	Interest expense from amort. sched. + Straight Line (SL) depreciation	Rental payment expense	Interest expense from amort. sched. + MACRS depreciation	Rental payment expense
<b>e</b>	How is the Profit/Loss recorded by the <b>Lessor</b> ?	Lease (Interest) income from amort. Schedule	Rental payment - SL depreciation	Lease (Interest) income from amort. Schedule	Rental payment income - MACRS depreciation
<b>f</b>	Who prefers each of the classifications?	Lessor	Lessee	Neither	Lessor and Lessee