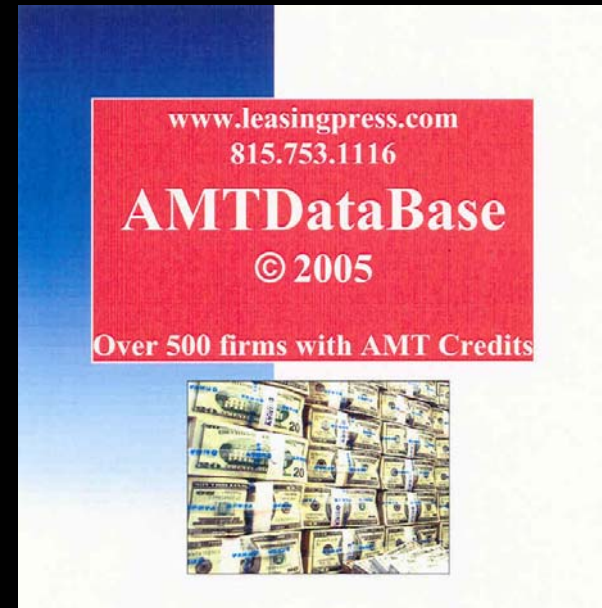


The 90 Second Lessor



Selling Tax Leasing to AMT Firms

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In a nutshell, find companies that can't fully use new tax deductions (depreciation) currently because they are subject to the Alternative Minimum Tax (AMT). AMT companies have a higher effective tax rate than other (non-AMT) firms, and thus a higher cost of doing business. How do firms avoid the AMT or get out of it? Have them sell their depreciation to you—the lessor—and help them lower their cost of using assets. They should lease—not buy. Flip forward for the AMT story outline.

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[1] A tax lease means the lessor owns & depreciates equipment—not the lessee.

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[2] The AMT makes companies tax disadvantaged, meaning they cannot fully utilize (in our case) MACRS depreciation deductions. The result is a firm with a higher effective tax rate, meaning a higher cost of doing business.

• The trick is to find companies with unused AMT credits that so you can help them get out of the AMT!

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[3] Firms are required to calculate their tax bill two ways each year—the regular way, and pay a 35% tax. The second is the AMT, which requires a bunch of adjustments and preferences to be added back and calculate AMT tax at 20%. The higher number is that the firm owes that year in Federal Income Tax.

What kind of company is likely to bump into the AMT? A rapidly growing capital intensive firm. They will acquire lots of equipment, and have to add a slice of depreciation back on the AMT table.

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[3 cont'd] Here's an example.

- Regular taxable = \$5 million
 - Regular tax at 35% = \$1.75 million
 - Regular taxable = \$5 million
-
- AMT Preference add backs and adjustments = \$5.25 million
 - AMT Taxable = \$10.25 million
 - AMT Tax at 20% = \$2.05 million
 - Federal tax owed = \$2.05 million
 - Effective tax rate = 41% [2.05/5]

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[3 cont'd] Example continued.

This firm has a 41% effective tax rate because of the AMT. Its more efficient competitors have a 35% tax rate. Who is more profitable and able to compete—the other guys!

How did this happen? The firm had a lot of add backs, including a slice of accelerated depreciation. Since it is capital intensive and growing, the bundle of depreciation add backs became quite large.

- What other type of company could fall into the AMT? How about this same company in a bad year—the adjustments are mechanical and loom larger relative to ordinary income when income is depressed.

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[3 cont'd] Example continued.

Let's say this business has a downturn.

Regular taxable income declines to \$2 million, but the AMT add backs are still \$5.25 million. In this case, regular tax is \$.7 million, and AMT tax is \$1.45 million.

That boosts the effective tax rate to 72.5%!!! [1.45/2.0]

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[4] AMT Credits can be carried forward indefinitely. AMT Credits are the difference between AMT and regular taxes, and can be applied to regular tax in a future year when regular tax exceeds the AMT tax for that year.

The longer a firm believes it will carry these credits forward, the less value they have.

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[5] If a tax lessee generates an AMT Credit of \$5 million, how much is it worth? Depends upon when it believes the Credits can be utilized. With a time value of money of 12%, the AMT Credits would be worth the following amounts for various carry forward periods:

- 5 years—present value is \$2.8 million
- 10 years-present value is \$1.6 million
- 20 years-present value is \$0.5 million

An indefinite carry forward period does not offer much comfort to a financier—the time value of money will destroy its value!

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[6] Then what could an AMT company do instead of buying needed equipment? Sell the depreciation deductions on new equipment to a lessor by leasing rather than buying.

Leasing equipment does not create AMT adjustments which wreck the value of depreciation deductions!

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[7] By leasing equipment, the equipment user—the AMT company-- gets the benefit of someone else depreciating the equipment, avoids jacking up its effective tax rate and realizes a lower financing cost in the process. A win win.

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[8] O.K., so you are looking for companies with AMTs to make your tax lease pitch. Where do you find them?

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[9] To find AMT companies you can use one of two methods. First, you can wade through the annual reports of thousands of companies that file with the Securities and Exchange Commission and read their tax footnotes. I think there are about 27,000 companies. Look for companies indicating they have unused AMT Credits.

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[10] The second method of finding AMT companies is to license the AMTDataBase © 2005, which has found your leads for you—over 500 companies waiting for you to call.

We have already waded through the tax footnotes for you and recorded what you need to know in a searchable database.

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[11] Remember that AMTs do not expire, so the hook is not the same as an NOL sale. The AMT leasing hook is avoiding creating AMT add backs (a piece of depreciation), lowering a firm's effective tax rate and making it more competitive.

Tax leasing and tax sale/leasebacks are good tools for avoiding or getting out of the AMT (newer equipment for sale/leaseback, since that is where the largest depreciation add backs are).

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[12] How can you tell if a firm thinks it will produce income in the future to use its AMT Credits? One way is to look at their tax valuation allowance. If they do not offset their AMT Credits with a valuation allowance, they are confident they will be profitable in the future. The AMTDataBase © 2005 captures this information for you.

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[13] What if you only follow companies in certain states or in specific industries, or only companies with certain asset, revenue or income parameters? No problem—the AMTDataBase © 2005 has over 20 variables by which you can search. See next page for searchable fields.

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[14] Searchable fields:

- City
- State
- Zip
- Phone
- Stock exchange
- Ticker symbol
- Cusip number
- DUNS number
- SIC
- Fiscal year end

Searchable fields:

- Auditor
- Sales growth %
- Net PP&E
- Total assets
- Shareholders equity
- Sales
- EBITDA
- Net Income
- Federal AMT in \$
- Valuation allowance

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For more information on the powerful AMTDataBase © 2005 prospecting tool, please contact James M. Johnson:

- 815.753.1116
- jamesjohnson@niu.edu
- Visit www.leasingpress.com to download a sample of records.
- Price: site license \$3,295.