

TRAC Lease

Customer Benefits

TRAC Leases (open-end) are "true tax leases" and the payments can be expensed up to 100% and treated as "rent" payments for federal income tax purposes. Therefore, tax benefits are extended over the life of the lease.

TRAC leases usually don't require any "upfront" payments (no down payment) and the first payment is due thirty days from lease date.

TRAC Leases have a **Terminal Rental Adjustment Clause**.

TRAC Leases are limited to motor vehicles and trailers used at least 50% of the time for business purposes. TRAC Leases are unique in that federal tax rules permit a rental adjustment back to the lessee at lease termination, but still be treated as a "true tax lease".

TRAC Leases have none of the penalties associated with other leases.

- NO deposits
- NO lease end disposition fees
- NO mileage limits or per mile charges
- NO restrictions on signage or lettering
- NO paint scheme restrictions
- NO lease end charges for body damage

How the TRAC Leases work:

At the beginning of the lease a residual amount is chosen that will be used to determine monthly payment and is appropriate for the anticipated vehicle usage and estimated mileage. The residual value is intended to be close to the value that the dealer would give for the vehicle at trade-in, at lease end.

- Higher Residual Amounts = lower monthly payments = higher lease end liability to lessee

- Lower Residual Amounts = higher monthly payments = lower lease end liability to lessee

At the end of a TRAC Lease the Lessee has 4 choices:

1. **Purchase** the vehicle for the **Residual Amount** plus any taxes.
2. **Trade in** for a replacement vehicle. Apply any equity to the new vehicle.
3. **Extend** the lease by contacting the lessor.
4. **Turn in** the vehicle and be eligible for a **Rental Adjustment** based on the lessor's sale proceeds, if greater than the **Residual Amount**. If the vehicle sells for *less* than the **Residual Amount** lessee is responsible for the deficiency (purchase the vehicle for the **Residual Amount** and there is no further obligation).

Example of a TRAC Lease at Lease End

Original Cost of Vehicle: \$ 35,000

Residual Amount: 7,500

End of Term Sale Proceeds: 8,000

Terminal Rental Adjustment: **\$500 Cash back to lessee.**

NOTE: This information is based on accepted accounting principles and interpretations. It is intended to help you understand Commercial Leases. This is not to be considered tax or legal advice. Always consult with a qualified tax or legal advisor regarding any aspect of the federal tax code.

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