HOW TO MAXIMIZE NEW TAX REFORM BENEFITS FOR YOUR FLEET

FLEET LEASING & MAINTENANCE  |  DEDICATED TRANSPORTATION  |  SUPPLY CHAIN SOLUTIONS
The Tax Cuts and Jobs Act (TCJA) signed into law in December, was a welcome piece of legislation for the business sector, including the transportation industry. As the first comprehensive reform to the tax code since 1986, many in the transportation industry believe the new code will stimulate economic growth. And, for companies with fleets, it creates a leasing environment that has never been better, which adds even greater savings for your company.

Although a full service lease, in most cases, was already more financially attractive than owning and maintaining your own vehicles prior to tax reform, Ryder’s total cost of ownership (TCO) model originally created in partnership with Ernst & Young, and validated by KPMG, confirms that the environment for leasing under the new tax laws has improved. And, in almost all cases, leasing is the better financial option for fleets when compared to owning. This is apparent when viewed through the Ryder TCO model that takes into account often overlooked expenses of owning vehicles, weighted average cost of capital (WACC), and opportunity cost, among others.

In this report, you will learn about the main components of the new tax reform applicable to leasing, how these changes impact the lease versus own decision, and why, if your company owns its vehicles, it is time to reconsider your fleet strategy.

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New tax reform changes

The following information reviews many of the significant tax reform changes affecting leasing. However, it is not a comprehensive analysis of all changes encompassed in the new tax reform legislation. To understand all the impacts to your business, it is best to consult a tax advisor.

TAXES
Tax rates for the majority of businesses have been reduced. The changes vary depending on your taxpaying filing structure (e.g., C Corporation, S Corporation, LLC, Partnership, etc.). For C Corporations, there is now a single flat tax rate of 21 percent. This replaces the previous tax rates ranging between 15 to 35 percent. Many owners of S Corps, LLC’s, will benefit from generally lower individual rates in addition to benefiting from a reduction of up to 20 percent of certain business income, subject to limitations.
DEPRECIATION
Companies can now depreciate 100 percent of the cost of a vehicle and other long-term capital assets – new or used – within the first year. The 100 percent depreciation amount remains in effect until January 1, 2023, and then reduces by 20 percent every year thereafter.

INTEREST EXPENSE
Previously, companies were allowed to deduct all interest expense incurred by their business. Changes in the new tax laws place limitations on the amount of interest companies can deduct. From 2018 to 2021, the deductibility of a company’s net interest expense is limited to 30 percent of a company’s tax EBITDA (earnings before interest, taxes, depreciation, and amortization). Beginning in 2022, the deductibility of a company’s net interest expense will be limited to 30 percent of EBIT (earnings before interest and taxes). These limitations are not applicable to companies with revenues of less than $25 million.

LIKE-KIND EXCHANGE
Businesses may no longer make use of like-kind exchange programs for vehicles. This eliminates the company’s ability to defer taxable gains associated with the sale or trade-in of their vehicles.

For lease providers, the tax reform changes have a mixed impact. Some provisions decrease costs for the company, while others increase them.

The corporate tax rate and the new 100 percent depreciation are positives for many leasing companies. However, the reduction of the corporate tax rate marginalizes the impact of accelerated depreciation because of the minimized tax shield. Additionally, the changes to interest deductibility and the loss of like-kind exchange programs could be neutral to a net negative for many leasing providers.

When all the provisions are taken into consideration, leasing providers should realize a net benefit in their pricing models which will enable leasing providers to provide more attractive pricing to their customers.
What is the impact on the lease versus own decision?

Full service leasing, in most cases, is still a better option than fleet ownership, and the tax reform changes actually enhance the leasing proposition in most cases.

There are many reasons to lease rather than own a fleet. Several significant reasons are as follows:

• Procurement power on vehicles, parts, and other ancillary items provides a cost savings that an individual company may not be able to realize on its own

• Value-added services such as fleet liability and physical damage protection, fueling, and safety products provided by experts at competitive rates

• Elimination of much of the risk of ownership with a full service maintenance program that is 100 percent covered by one predictable monthly payment

• Better final sale price on the vehicle at the end of its life through established used vehicle sales outlets. This ability to receive enhanced residuals results in attractive pricing from a lease standpoint

As mentioned, the tax law changes create an increased opportunity for companies to lower their costs through leasing. We completed a deep analysis of our Ryder ChoiceLease product, and have adjusted our pricing model to reflect these recent tax law changes that provide a net benefit going forward. By completing a TCO analysis that takes into account all the tax law changes – accelerated depreciation, the reduction in the corporate tax rate, the limitation of interest deductibility, etc. – in the majority of cases leasing is still a better value than owning a fleet.

Given the complexities of the new tax law changes and the ways in which it will affect each business differently, now is a perfect time to reconsider your fleet strategy. Because no two businesses are the same, a thorough assessment of your fleet combined with an analysis of your fleet strategy can help you decide whether leasing or owning is best for your business. If you still want the tax benefits of owning vehicles in your fleet, Ryder is the only provider in the industry that offers a Tax Advantage Lease. This solution combines all of the benefits of a Ryder ChoiceLease with the tax benefits of ownership.

While the new tax laws can be confusing, Ryder’s sales and financial experts can help clarify which option – leasing or owning – is better for your business by analyzing your TCO and providing you with the pros and cons so you can make the best decision for your fleet and business. Contact Ryder at 888-292-4757 to work with one of our financial consultants or sales professionals to help you navigate through these changes and the important decision of leasing versus owning your fleet.

About Ryder

Ryder (NYSE: R) is a FORTUNE 500® commercial fleet management, dedicated transportation, and supply chain solutions company. The Company offers nationwide access to over 800 state-of-the-art service facilities, 5,900 certified technicians, and a dedication to superior repair quality, safety, speed, and full visibility. Ryder offers a wide range of maintenance products for all vehicle types, delivering flexibility around the level of maintenance that companies require in order to keep their fleet running properly throughout its life span. Ryder is continually monitoring emerging fleet technologies and works closely with the technology providers and equipment manufacturers building innovative features to provide feedback around functionality, usability, and adaptability.

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