

## What do you mean by tax-exempt?

What does it mean when we offer a “tax-exempt” lease? It means that the interest that the department pays does not have to be counted as income for the bank that owns the payments. Because the bank does not have the cost of having to pay income taxes, it can provide a lower rate than a “taxable” lease.

For example, if you have a taxable lease that pays 9% and you pay roughly 33% in income taxes, that lease provides an after-tax return of 6%. Since the bank doesn’t have to pay income taxes on a tax-exempt lease or loan, they can charge 6% for the same after-tax return.

Some departments have insisted that they are tax-exempt because they do not have to pay sales taxes on their purchases or because they are a not-for-profit organization. While they are exempt from paying sales or income taxes themselves, these details do not determine their ability to “issue tax-exempt debt”. The IRS has specific rules and procedures to ensure how low tax-exempt interest loans can be issued. We at First Bankers are experienced in ensuring that your customer is lawfully complying with the low tax-exempt interest rate.

It goes without saying that there are a lot of different types of taxes. While your department may not have to pay sales or income taxes, the “tax-exempt” lease has nothing to do with their tax liability. Instead, tax-exempt means that they have complied with IRS regulations so that the bank does not have to pay income taxes on the interest and can offer a lower interest rate.