

Equipment Tax Benefits 2009



Business Equipment Purchases

Business owners who buy capital equipment - machinery, computers, and other tangible goods, usually prefer to deduct the cost in a single tax year, rather than a small amount over a number of years. Federal tax law lets small businesses accelerate depreciation for qualified property under tax code Section 179.

The American Recovery and Reinvestment Act will extend the increased Section 179 small business expensing levels for one year. In 2009, the expensing limit is \$250,000 and the phase-out threshold is \$800,000. This means that in 2009 a small business can expense up to \$250,000 as long as its qualified equipment purchases do not exceed \$800,000. In addition, a special first-year **50% bonus depreciation** is allowed on new property acquired and placed in service in 2009. The 50% special depreciation is in addition to regular 20% depreciation and Section 179 deduction.

Companies cannot write off more than their taxable income. For additional information, please visit www.irs.gov or contact the IRS helpline at: 800-829-4933.

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Benefits of Non-Tax Leases

Non-Tax/Capital Lease. The benefit of this lease type is the ability to take advantage of IRC Section 179 and expense up to the amount allowed for the year that the equipment is installed. You may depreciate any excess on the depreciation schedule for that particular asset. Examples of this type of lease include \$1.00 Buyout, 10% Purchase Upon Termination (PUT), and Security Deposit equals Buyout (SD=BO) leases.

Examples: Equipment is financed and put in use in 2009. The equipment cost in the first example is \$275,000 and the equipment cost in the second example is \$40,000. Using Section 179 and assuming a 35% tax bracket, net savings on the equipment would be:

Equipment cost:	Example 1: <u>\$275,000</u>	Example 2: <u>\$40,000</u>
1st Year Write Off: Section 179 ($\$250,000$ is maximum write-off)	\$250,000	\$40,000
50% Bonus: ($\$275,000 - \$250,000 = \$25,000$. $\$25,000 \times 50\% = \$12,500$)	\$12,500	\$0
Regular MACRS: ($12,500 \times 20\% = \$2,500$)	\$2,500	\$0
Total 1st Year Deduction: ($\$250,000 + \$15,000 = \$265,000$)	\$265,000	\$40,000
Tax Savings Assuming Rate of 35%: ($\$265,000 \times 35\% = \$92,750$)	<u>\$92,750</u>	<u>\$14,000</u>
1st Year Bottom Line Equipment Cost: ($\$275,000 - \$92,750 = \$182,250$)	\$182,250	\$26,000

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IRC Section 179 & Election to Expense

An expense deduction is provided for taxpayers (other than estates, trusts or certain non-corporate lessors) who elect to treat the cost of qualifying property, called Section 179 property, as an expense rather than a capital expenditure. Under IRC Section 179, equipment purchases, up to the amount approved for a given year, can be expensed (deducted from taxable income) if installed by December 31st. Non-Tax leases qualify for this deduction in their year of inception. Any excess above the expensed amount can be depreciated depending on the equipment type. This election is made on form 4562 and is to be attached to the taxpayer's original return for the year the property is placed in service.

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Benefits of Tax Leases

Tax Lease/True Lease. This lease type is where the lessor retains ownership. As the lessee, you may be allowed to claim the entire amount of the monthly investment as a tax deduction. Many rental contracts qualify as a true lease including a 10% Option and a Fair Market Value lease.

Example:

Monthly lease payment:	\$1,000
Lease term:	36 months
Monthly tax savings: (\$1,000 x .35*=\$350) <i>*Assuming a 35% tax bracket</i>	\$350
Total tax savings over the life of the lease: (\$350 x 36 months = \$12,600)	\$12,600

Flexible Financing to Help You Grow Your Business

Leases can be structured to meet all types of cash flow needs including skip and deferred payments. Our goal is to customize a structure to meet cash flow needs which allows lessees to acquire new and profitable business equipment. Contact us today and let us help you grow your business.

Please contact your tax advisor for the specific impact to your business.

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