

Learn About Your Available Tax Savings

Want to lower the true cost of ownership on your business equipment? Here's how:

Section
179 Tax
Savings



Business Equipment

Business owners who acquire equipment for their business: machinery, computers, and other tangible goods, usually prefer to deduct the cost in a single tax year, rather than a little at a time over a number of years. This deduction is known by its section in the tax code, a Section 179 deduction.

Under Section 179, businesses that spend less than \$450,000 a year on qualified equipment, can **write off up to \$112,000 in 2007**. The rules are designed for small companies, so the \$112,000 deduction phases out when a business purchases more than \$450,000 in one year. (Companies cannot write off more than their taxable income).

Benefits of a Non-Tax/Capital Lease

The benefit of a **Non-Tax/Capital Lease** is that it can take advantage of Section 179: expense up to \$112,000 if the equipment is put in use in 2007. In addition, you may depreciate any excess on the depreciation schedule for that asset. Examples of Non-Tax/Capital Leases include a \$1.00 Buyout Lease, an Equipment Finance Agreement (EFA), and a 10% Purchase Upon Termination (PUT) Lease. **Example Calculation:** Assume you finance \$125,000 worth of business equipment, put it in use in 2007, and take advantage of Section 179. Your **tax savings** could be significant:

Equipment Cost Example: \$125,000

1st Year Write Off: \$112,000

(\$112,000 is the maximum Section 179 write-off in 2007)

Normal 1st Year Depreciation:

$(\$125,000 - \$112,000 = \$13,000 \times 20\% = \$2,600)^*$

*Depreciation calculated at 5 years = 20%

\$ 2,600

Total 1st Year Deduction:

$(\$112,000 + \$2,600 = \$114,600)$

\$114,600

Tax Savings Assuming Rate of 35%:

$(\$114,600 \times .35 = \$40,110)$

\$ 40,110

1st Year Savings / Lowered Equipment Cost: \$ 84,890

$(\$125,000 - \$40,110 = \$84,890)$

Note: For complete details, or changes to the tax incentives, please visit www.irs.gov or contact the IRS helpline at: 800-829-4933

The above example shows how taking advantage of Section 179 can significantly lower the true cost of equipment ownership from **\$125,000** to **\$84,890**.

For the specific impact to your company, please contact your tax advisor.

Non-Tax/Capital Lease – Continued

Tax Code Section 179 & Election to Expense Detail

The election, which is made on Form 4562, is for the tax year the property was placed in service or an amended return filed within the time prescribed by law. The total cost of property that may be expensed for any tax year cannot exceed the total amount of taxable income during the tax year. Section 179 property is property that you acquire by purchase for use in the active conduct of your business. To ensure property qualifies, reference Publication 946.

This expense deduction is provided for taxpayers (other than estates, trusts or certain non-corporate lessors) who elect to treat the cost of qualifying property as an expense rather than a capital expenditure. Under 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. Not all states follow federal law. Contact your tax advisor for further detail or visit www.irs.gov for specific detail.

Tax/True Lease Benefits

If a lease is a **Tax Lease/True Lease**, the lessor retains ownership and you, as the lessee, 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 Calculation:** Assume that you have a Tax/True Lease with a \$1,000 monthly payment – check out the tax savings that may be available:

Example

Monthly investment = \$ 1,000

Finance Term = 36 months

Tax bracket = 35%

Monthly tax savings = \$1,000 x .35 = \$350.00

Total tax savings over the term of the contract = \$12,600.00

Further Detail

Reminder: to take advantage of the 2007 tax incentives, your business equipment must be put in use by year-end. Each company should contact their tax advisor to learn about the specific impact to your business.

Interested in learning more? We'll provide you with a free consultation and extend finance solutions so you can acquire the business equipment you need. Contact us today.