

Tax Benefits of Financing **AccuBRASS.com**

Discover the new tax savings under the Economic Stimulus Act of 2008!

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 under tax code Section 179 for qualified property.

Economic Stimulus Act of 2008

Under Section 179, businesses that spend less than \$800,000 a year on equipment or property can write off up to \$250,000 in 2008. The rules are designed for small companies, so the \$250,000 deduction begins to phase out when businesses purchase more than \$800,000 in one year. In addition, a special first-year 50% **bonus depreciation** is allowed on new property acquired and placed in service in 2008. 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 any changes to the tax code, please visit www.irs.gov or contact the IRS helpline at: 800-829-4933.

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.

Example: Equipment is financed and put in use in 2008 and the cost is \$250,000. Using Section 179 and assuming a 35% tax bracket, net savings on the equipment would be:

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

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Tax Benefits of Financing...Cont'd

IRC Section 179 & Election to Expense

An expense deduction is provided for taxpayers (other than estates, trusts or certain noncorporate 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.

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:	\$1,000.00
Lease term:	36 months
Monthly tax savings: ($\$1,000 \times .35^* = \350) <i>*Assuming a 35% tax bracket</i>	\$350.00
Total tax savings over the life of the lease: ($\$350 \times 36 \text{ months} = \$12,600$)	\$12,600.00

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.

