



Discover Your Tax Savings

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 little at a time over a number of years. Federal tax law lets you deduct more depreciation than you can under the usual rules under tax code Section 179 for qualified property.

Under Section 179, businesses that spend less than \$410,000 a year on equipment or property can write off up to \$102,000 in 2005. These dollar amounts may increase – adjusting for inflation during 2005, however, these are the current minimums. The rules are designed for small companies, so the \$102,000 deduction begins to phase out businesses that purchase more than \$410,000 in one year. Companies cannot write off more than their taxable income.

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

Experience the Benefits

Non-Tax/Capital Lease. The benefit of this lease type is that it can take advantage of IRS Section 179 and expense up to the amount allowed for the year 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 and 10% Purchase Upon Termination (PUT) leases. Example: Equipment is financed and put in use in 2005 and the cost is \$125,000. Using Section 179 and assuming a 35% tax bracket, your net savings on the equipment would be:

Equipment cost:	\$125,000
1st Year Write Off:	
Section 179 \$102,000	
(\$102,000 is maximum write-off)	

Normal 1st Year Depreciation	\$ 4,600
<small>(\$125,000-\$102,000 = \$23,000 x 20% = \$4,600)+</small>	

Total 1st Year Deduction	\$106,600
<small>(\$102,000 + \$4,600 = \$106,600)</small>	

Tax Savings Assuming Rate of 35%	\$ 37,310
<small>(\$106,600 x .35 = \$37,310)</small>	

1st Year Bottom Line Cost	\$ 87,690
<small>(\$125,000 - \$37,310 = \$87,690)</small>	

+Depreciated calculated at 5 years

Tax Lease/True Lease. This lease type is where the lessor retains ownership and 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: Monthly investment is \$ 1,000. Term is 36 months. Assuming a 35% tax bracket, your monthly tax savings would be \$1,000 x .35 = \$350.00. Total tax savings over the term of the contract would be \$12,600.00.

IRS 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 IRS 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.

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. The 179 deduction figure is increased for an enterprise zone, renewal community, and the Liberty Zone. For greater detail, contact your tax advisor or visit www.irs.gov and reference Form 4562.



IRS Section 179 Tax Savings



IRS Section 179

Under IRS Section 179, equipment purchases of up to \$100,000* can be expensed (deducted from taxable income) in the first year eligible property is placed in service in a trade or business. Finance leases (\$1.00 buyout) qualify for this deduction in their year of inception. The 2003 law quadrupled the amount of qualified property that can be expensed under IRS Section 179 from \$24,000 to \$100,000 (indexed for inflation) for tax years 2003, 2004, and 2005. The American Job Creation Act of 2004 has extended the use of the \$100,000 ceiling for two more years, through 2007. Qualifying property now also includes off-the-shelf computer software.

Any purchase in excess of \$400,000* (indexed for inflation) reduces the \$100,000* Section 179 limit (dollar amounts are indexed for inflation). For example, if you purchase \$410,000 in qualifying property, the Section 179 deduction is limited to \$90,000.

The total cost of property that may be expensed for any tax year cannot exceed the total amount of taxable income (determined after application of the investment limitation) derived from the active conduct of any trade or business during the tax year. Costs disallowed under this rule may be carried forward an unlimited number of years subject to the ceiling amount for each year.

The maximum amount of asset cost that can be expensed by year is: \$100,000* for 2005 through 2007. For example, if you purchase or lease a piece of equipment for \$45,000 and install it in 2005, you are eligible to take a \$45,000 tax deduction in the respective year.

Please note: Contact your tax advisor for specific information regarding IRS Section 179 and all accounting procedures.

*Dollar amounts for 2005 will be indexed for inflation

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Consider the following examples:

	Example #1	Example #2
Acquisition cost of qualifying property	\$200,000	\$ 50,000
Less: Threshold for Section 179 phase out*	\$400,000	\$400,000
Amount exceeding threshold	\$0	\$0
1st Year Write-off: Maximum Tax Code 179 *	\$100,000	\$100,000
Less: Amt exceeding threshold	\$0	\$0
Section 179 Deduction *	\$100,000	\$100,000
Acquisition cost of qualifying property	\$200,000	\$50,000
Less 179 Deduction *	\$100,000	\$50,000
Less Normal 1st Year Depreciation **	\$20,000	\$0
Total Deduction 1st Year	\$120,000	\$50,000
Marginal Tax Rate (Assumed)	35%	35%
Your Tax Savings	\$42,000	\$17,500

* Section 179 deductions for 2005 will be indexed for inflation

** 20% depreciation based on a 5-year asset life

Please consult your tax advisor regarding IRS Section 179 and all accounting procedures.

