

Section 179 Tax Savings 2006

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 law lets you deduct more depreciation than you can under the usual rules under tax code Section 179.

Under Section 179, businesses that spend less than \$430,000 a year on qualified equipment or property can write off up to \$108,000 in 2006. The rules are designed for small companies, so the \$108,000 deduction begins to phase out businesses that purchase more than \$430,000 in one year. Companies cannot write off more than their taxable income.

Benefits of a Non-Tax/Capital Lease

Non-Tax/Capital Lease. The benefit of this lease type is that it can take advantage of Tax Code 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 2006 and the cost is \$125,000. Using Section 179 and assuming a 35% tax bracket, your net savings on the equipment would be:

Example: Equipment Cost = \$125,000

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|---|------------------|
| 1st Year Write Off: | |
| Section 179 | \$108,000 |
| (\$108,000 is maximum write-off) | |
| Normal 1st Year Depreciation | \$ 3,400 |
| (\$125,000-\$108,000 = \$17,000 x 20% = \$3,400)* | |
| Total 1st Year Deduction | \$111,400 |
| (\$108,000 + \$3,400 = \$111,400) | |
| Tax Savings Assuming Rate of 35% | \$ 38,990 |
| (\$111,400 x .35 = \$38,990) | |
| 1st Year Bottom Line Cost | \$ 86,010 |
| (\$125,000 - \$38,990 = \$86,010) | |

*Depreciation calculated at 5 years

Note: 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.

Tax/True Lease Benefits

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 \times .35 = \350.00 . Total tax savings over the term of the contract would be \$12,600.00.

Tax Code 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 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.

Further Detail

For further detail, contact your tax advisor or visit www.irs.gov and reference Form 4562.

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