



# Create Your Own Tax Break!

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

## Business Equipment

Business owners who acquire equipment including machinery, computers, and other tangible goods, usually prefer a substantial deduction in a single tax year, rather than a little at a time over a number of years. This accelerated deduction is known by its section in the tax code: a Section 179 deduction. The 2008 law increases the amount of qualified property that a business can expense under Section 179 to \$250,000. This incentive is for equipment placed in service between December 31, 2007 and January 1, 2009 and is designed for small companies, so the deduction phases out when a business purchases more than \$800,000 in one year. (Companies cannot write off more than their taxable income).

## Bonus Depreciation 2008

The law passed in 2008 also created a bonus depreciation of 50% for qualifying assets. This bonus is in addition to regular first-year depreciation.

## 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 \$250,000 if the equipment is put in use in 2008. 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, an Equipment Finance Agreement (EFA), and a 10% Purchase Upon Termination (PUT) Lease. **Example Calculation:** Assume you finance \$300,000 worth of business equipment, put it in use in 2008, and take advantage of Section 179. Your **tax savings** could be significant:

### Equipment Cost Example: \$300,000

<b>1st Year Write Off:</b> ( $\$250,000$ is the maximum Section 179 write-off in 2008)	<b>\$ 250,000</b>
<b>50% Bonus Depreciation</b> (On remaining value: $\$300,000 - \$250,000 = \$50,000$ ; $\$50,000 \times 50\% = \$25,000$ )	<b>\$ 25,000</b>
<b>Normal 1st Year Depreciation:</b> (Depreciation calculated at 5 years = 20%; $\$25,000 \times 20\% = \$5,000$ )	<b>\$ 5,000</b>
<b>Total 1st Year Deduction:</b> ( $\$250,000 + \$25,000 + \$5,000 = \$280,000$ )	<b>\$ 280,000</b>
<b>Tax Savings Assuming Rate of 35%:</b> ( $\$280,000 \times .35 = \$98,000$ )	<b>\$ 98,000</b>
<b>1<sup>st</sup> Year Net Cost after Tax Savings:</b> ( $\$300,000 - \$98,000 = \$202,000$ )	<b>\$ 202,000</b>

The sample calculation shows how taking advantage of Section 179 can significantly lower the true cost of equipment ownership from **\$300,000** to **\$202,000**.

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

### Note:

For complete details, or changes to the tax incentives, please visit [www.irs.gov](http://www.irs.gov) or contact the IRS helpline at: **800-829-4933**

## *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](http://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, the below 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**

## *Act Now!*

To take advantage of the 2008 incentives and the substantial tax savings, your business equipment must be put in use by year-end. Please contact your tax advisor to learn about the specific impact to your business.

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