Temporary law can mean HUGE tax savings for 2011 equipment buyers

Improving business conditions aren't the only reason forward-thinking companies are making new capital investments this year. Congress and the president have enacted temporary tax laws to encourage companies to buy now. The incentives created in December 2010 are the most significant in a generation. **If your company purchases equipment in 2011, you can dramatically reduce what you send to Uncle Sam this year.**

The Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010 (TRJA) extended and expanded the depreciation bonus created in 2008. For **2011, it's an unprecedented 100 percent**; for 2012, it's 50 percent. By lowering your taxable income, bonus depreciation can significantly cut your 2011 and 2012 federal tax bills, freeing up cash in the near term.

Assume you buy and place in service in 2011 a new piece of equipment costing $100,000. Using bonus depreciation, you can "write off" the full amount this year, reducing your taxable income by $100,000. If you're in the 35 percent tax bracket, that can reduce your 2011 tax bill by $35,000.

There are some important nuances to keep in mind:

First, to qualify for bonus depreciation, the equipment must be new. That means the "first use" must occur with the taxpayer who claims the benefit. Used equipment that doesn't qualify for bonus depreciation might still qualify for Sec. 179 expensing (see below).

The equipment has to be placed in service in the year in which you claim the bonus (In other words, if what you're buying takes a long time to deliver, don't wait until December to place your order.

Bonus depreciation is elective, not mandatory. You don't have to use it if you don't want to. And it applies for both regular and alternative minimum tax purposes.

But there are some potential downsides. The more you depreciate now, the less you'll be able to depreciate later. In other words, your tax bill in future years may be higher because you'll have less to deduct. Also, if you depreciate 100 percent now and sell the asset before the end of the asset's MACRS recovery period, it may increase your tax bill in the year you sell. (Like-kind exchange (LKE) can help mitigate some of that potential depreciation bonus "hangover".) And some states don't recognize the depreciation bonus, which may result in additional tax complexity.

But when considering the downsides, consider this: Would you rather take the tax break now and invest the money in your company, or would you rather let the U.S. government hold onto it for you for the next several years?

Congress also recently changed Sec. 179 expensing rules. For the 2011 tax year, companies can expense up to $500,000 as long as total purchases don't exceed $2,000,000. For each dollar over, the eligible expensing amount correspondingly drops by one dollar. The TRJA extended Sec. 179 expensing through 2012 but lowers the benefit to $120,000 with a $500,000 phase out threshold. Eligible taxpayers can combine Sec. 179 and bonus depreciation for even bigger tax savings.

From a tax standpoint, there's never been a better time to invest in your company's future. Of course, this article doesn't constitute specific tax or legal advice, so be sure to check with your accountant or tax professional if you want to take advantage of the law.

But don't wait … the clock is ticking!

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BIESSE AMERICA FINANCE

2010-2011 Tax Relief Act

Tax Savings Calculator

How it Works

Businesses that purchase qualifying equipment in 2010 and 2011 may immediately **expense up to $500,000** of their new or used equipment costs under extended **Section 179 deduction** limits established by the Tax Relief Act (H.R.4853). As a result, expensing of tangible business capital equipment and some real property can be accelerated during the year of purchase rather than by depreciating it over a period of several years.

In addition to the immediate expensing allowed under IRC Section 179, businesses acquiring qualifying **new**** equipment are allowed to depreciate those costs by utilizing a temporary **100% bonus depreciation allowance**. Additional expensing for both new and used qualifying equipment is allowed with the use of a **standard first year depreciation allowance** (under MACRS rules, 20% for equipment with 5-year class life as defined in IRC Section 168). The amount expensed under Section 179 is limited to a taxpayer's taxable income and is reduced dollar-for-dollar to the extent a business purchases more than $2,000,000 of qualifying equipment prior to January 1, 2012.*

5-YEAR ASSET LIFE - TAX SAVINGS CALCULATION

			Enter Equipment Cost Here >	**$100,000.00**	
Deductions:				**NEW**	**USED**
	(A)	**Equipment Cost:**		$100,000.00	$100,000.00
	(B)	**Section 179 Deduction (up to $500,000)**	-	$100,000.00	$100,000.00
	(C)	**Balance**	=		
	(D)	**100% Bonus Depreciation on New Equipment (9/9/10-12/31/11)**	x 100% =		*N/A*
	(E)	**1st Year MACRS Depreciation Allowance (5-year Asset Life)**	x 20% =	*N/A*	
	(F)	**Total Deductions & Depreciation**	=	$100,000.00	$100,000.00
Tax Savings:					
	(F)	**Total Deductions & Depreciation**	=	$100,000.00	$100,000.00
	(G)	**Tax Bracket**	**Enter Tax Bracket Here >**	**35%**	
	(H)	**Total Tax Savings**	=	$35,000.00	$35,000.00
Equipment Cost:					
	(A)	**Equipment Cost:**		$100,000.00	$100,000.00
	(H)	**(Less) Total Tax Savings**	-	$35,000.00	$35,000.00
	(I)	**(=) Net Cost of Equipment after Tax Savings:**	=	**$65,000.00**	**$65,000.00**

TAX SAVINGS SIGNIFICANTLY REDUCE YOUR COST OF EQUIPMENT OWNERSHIP

Questions? Need payments or additional information? Please call us, we will be happy to assist you!

* This information does not constitute tax advise. Consult with your tax advisor to determine how to use equipment financing to take advantage of expensing and depreciation tax savings or visit www.irs.gov for additional information. Section 179 deductions are not automatic and qualifying taxpayers who want to take advantage of the deduction must elect to do so on **IRS Form 4562**.

** Equipment is considered new if it is placed in service by any business for the first time. Reconditioned equipment can qualify as new if the old or used parts constitute less than 20% of the total cost of the property. Bonus Depreciation applies only to purchases with tax "true" leases (not non-tax capital leases or EFA/loans).

Contact Us Today!

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