

The E-Finance Newsletter



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Election Revisited 2012

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Want To Lower The True Cost Of Ownership On Your Business Equipment? Here's How:

Business Equipment

Business owners who acquire equipment and software (see depreciation requirement) for their business: 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. This deduction is known by its section in the tax code, a Section 179 deduction.

Under Section 179, businesses that spend up to \$500,000 a year on qualified equipment, can write off up to \$125,000 in 2012. Annual purchases in excess of \$500,000 reduce the 179 deduction on a dollar for dollar basis. (Companies cannot write off more than their taxable income).

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 \$125,000 if the equipment is put in use in 2012. In addition, you may depreciate any excess on the depreciation schedule (50% bonus for new equipment and normal depreciation allowances) for that asset. Examples of Non-Tax/Capital Leases include a \$1.00 Buyout Lease, an Equipment Finance Agreement (EFA), and a 10% Purchase Option Lease (if less than the equipments true end of lease value). Example Calculation: Assume you finance \$400,000 worth of new business equipment, put it in use in 2012, and take advantage of Section 179 and bonus depreciation. Your tax savings could be significant:



Equipment Cost Example: \$400,000

Cost of Equipment:	\$	400,000.00
Section 179 Deduction:	\$	125,000.00
50% Bonus Depreciation	\$	137,500.00
Regular First Year Depreciation Deduction:	\$	27,500.00
Total First Year Deduction (5 yr - 20%):	\$	290,000.00
Cash Savings on your Equipment Purchase: (Assuming a 35% Tax Bracket)	\$	101,500.00
Lowered Cost of Equipment after Tax Savings	\$	298,500.00

(The sample calculation shows how taking advantage of Section 179 can significantly lower the true cost of equipment ownership from \$400,000 to \$298,500).

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"Efforts and courage are not enough without purpose and direction."

(John F. Kennedy)

"The worth of a life is not determined by a single failure or a solitary success."

(Kevin Kline)

"Great spirits have always encountered violent opposition from mediocre minds."

(Albert Einstein)

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Benefits of a Non-Tax/Capital Lease (Cont'd)

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 for specific detail.



Tax/True Lease Benefits

If a lease is a Tax Lease/True Lease, the lessor retains ownership and 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 the Tax/True Lease has 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

Further Detail

Reminder: to take advantage of the 2012 tax incentives, your business equipment must be put in use by year-end. Each company should contact their tax advisor to learn about the specific impact to your business.

Interested in learning more? Coastal Leasing, Inc., serving the lessee and vendor community since 1980, will provide you with a free consultation and extend flexible, competitive financing solutions (loans & leases) to meet yours or your client's financing needs. Contact Coastal Leasing today!

We realize that you have choices and we thank you for allowing us to be of service!