

Section 179 tax savings reward business expansion.

Stimulus Extends Deduction

The opportunity that Section 179 legislation (United States Internal Revenue Code 26 U.S.C. 179) offers businesses to spur their growth and expansion is unequalled in anything our Congress has passed in the last few decades...and you only have until Dec. 31 to take advantage of it.

As you'll recall, President Bush signed an innovative economic stimulus package earlier this year that offers substantial tax savings and incentives for businesses. This "2008 Economic Stimulus Act" provides for greatly increased Section 179 depreciation allowances. Simply put, businesses placing less than \$800,000 of equipment into service in 2008 will be able to immediately deduct up to \$250,000 of the investment this year. This money saving incentive only applies to equipment acquired by year's end.

Double Benefit

The legislation essentially doubles Section 179 from a qualification of less than \$400,000 in equipment acquired in the year to \$800,000. This could be encouraging to businesses considering expanding or adding new jobs, because buying or leasing equipment, upgrading software, and adding tangible property could dramatically lower their tax bill, freeing up capital.

The legislation also increases expensing for small businesses. To illustrate, a business placing up to \$800,000 of equipment into service this year would be able to immediately deduct up to \$250,000. Generally, the types of business equipment that qualify for this expensing election are the same kind that qualified for the now-defunct Investment Tax Credit. Most business essentials qualify. Permanent structures do not. Business vehicles

with a gross vehicle weight over 6,000 pounds qualify for the full Sec. 179, while lighter vehicles have a much lower dollar limit.

How to Apply

One of the most common questions is whether Section 179 applies only to the purchase of brand new assets, or whether used equipment qualifies. The answer: the asset just has to be new to the business. Owners can claim the deduction for items purchased from anyone other than themselves, or an entity controlled by them, such as a closely held corporation. For businesses that are sole proprietorships, LLCs, partnerships or S corporations, the savings will depend on the individual's tax rate. For a regular (C) corporation, the savings depend on the corporation's rate.

Here are the three benefits to an immediate write-off:

- * Business owners will be able to deduct the full amount in the first year, the larger tax deduction means more available working capital.
- * The Section 179 expense option is one of the best planning tools for small businesses. An owner can wait until it's time to file a tax return to decide whether or not to use it. With an extension, that could be as late as October.
- * Should a business place more than 40 percent of the total property for the year in service in the last quarter of the year, it will need to use a more complicated depreciation schedule but a tax professional can handle that detail.

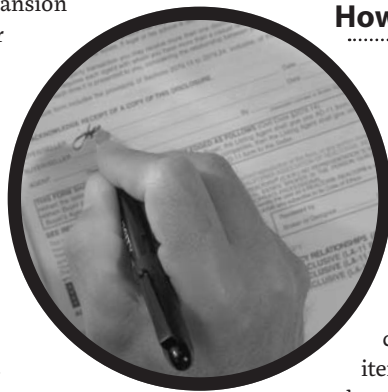
To qualify for the additional funds from the stimulus package, businesses can consider two options for obtaining equipment, leasing or purchasing. Leasing can be a more viable

option for business owners who have limited capital, or who may need equipment that must be upgraded every few years. Because equipment leases rarely require a down payment, the business owner can obtain the goods needed without significantly affecting cash flow. Lease payments can usually be deducted as business expenses on the tax return, reducing the net cost of the lease. In addition, leases are usually easier to obtain and have more flexible terms than loans for buying equipment. The deduction can be taken if one pays cash for the equipment OR if it is financed—either through a loan or through a lease purchase/capital lease.

If leasing is used to attain items that are subject to becoming technologically outdated in a short period, such as computers or other high-tech equipment, a lease passes the burden of obsolescence onto the lessor, as the business owner is free to lease new, higher-end equipment after the lease expires.

Each business owner's situation is unique and the decision to buy or lease business equipment must be made on a case-by-case basis. Please consult your accountant or tax attorney for individual case assessment and recommendations.

By choosing a lease purchase there is no cash outlay required and there is no diminution in borrowing power at your bank. Overall, the Section 179 is an ingenious component of the Economic Stimulus Package that will have a positive effect on our economy, generating production and sales of business equipment. If you are considering capital investments, act now before this 2008 tax code incentive comes to a close.



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