

# Reduce Your Tax Liability

## Four Ways to Save \$\$\$ by Leasing h.u.m.a.n. Machines

### #1 Take a Massive Deduction - Up to \$125,000 to be Exact!

Section 179 of the Internal Revenue Code allows small businesses to depreciate qualifying capital purchases 100% in the year put into service, rather than stretching out the depreciation deductions over 5, 7 or more years. This means BIG savings for you! Through 2010 equipment purchases of up to \$125,000 can be expensed, or deducted from taxable income, in the first year that eligible property is placed in service as long as the property is used at least 50% for business purposes. Capital leases with a \$1.00 buyout qualify for this deduction. This deduction is reduced, dollar-for-dollar, by the total value of Section 179 property exceeding \$500,000. For example, if you purchase \$520,000 in qualifying property, the Section 179 deduction is then limited to \$105,000. Furthermore, the total cost of property that may be expensed in any given year may not exceed your total taxable income in that year. Costs disallowed under this rule, however, may be carried forward an unlimited number of years subject to the ceiling amount for each year.

### #2 100% Tax Deductible Payments

The key component of a “Fair Market Value” (FMV) lease is that the lessee has the option to return the equipment at the conclusion of the lease without ANY further obligation. The lessee also has the option to purchase the equipment for its “Fair Market Value,” or continue leasing the equipment from the lessor, usually at a reduced rate. In such scenarios, the lessee does not own the equipment – it’s more like a rental. The lessee does not record the equipment as an asset on its balance sheet, nor does the lessee record the equipment as a long-term liability. The lease is treated as an off-balance sheet, operating expense, and therefore, is 100% tax deductible!

### #3 You Can Avoid the AMT Double Tax Whammy

Under the Tax Reform Act of 1986 Congress took aim at small to medium sized businesses that had been reducing their overall tax liability by claiming depreciation on equipment they had acquired. Although the subject is rather complex, the net effect is that companies who have used equipment depreciation to significantly lower their tax liability are subject to a review that may have the effect of classifying some of those depreciation write-offs as “tax preferences,” thus subjecting those same companies to an additional “Alternative Minimum Tax” (AMT) in addition to the taxes they would otherwise owe. In other words, owning or purchasing too much equipment, while lowering the traditional tax component, can now trigger the addition of new added taxes. So what’s the good news? Equipment lease payments that are treated as rentals do not qualify as tax preference items and have no adverse effect on AMT liability!

### #4 Accelerate Your Depreciation

With a cash, bank loan or finance-type lease purchase you normally recapture some of your expenses by claiming depreciation on the equipment according to the IRS accepted “useful life” of that equipment. You may also claim the interest portion of the lease as an expense during the term of repayment. Depreciation can be spread over 5-7 years on long-lived equipment. The same equipment on an FMV lease can be 100% expensed during whatever lease term you select. For example: if you enter into a 36 month FMV lease on equipment that would otherwise have to be depreciated over 5 years, you will effectively be able to write-off all of its value (less residual) in just 3 years instead of 5!