

2009 Tax Incentives: Time is running out

About the Author:
Mark Charlton – President
Tech Financial Services
phone 414.224.0220
MarkC@techfin.net

Mark Charlton has 23 years experience in the machine tool financing industry. He attended Marquette University and graduated from UWM in 1980. Today Mark is a Principle with Tech Financial Services, A Five Lakes Company, where he continues to grow the business by building lasting relationships with his vendors and customers.

Two lucrative depreciation tax breaks might be available to your business this year, but they may not last much longer. Now may be the best time to buy a new machine - you could upgrade the efficiency of your equipment and save a year's worth of payments.

Here's a rundown of the two tax breaks and how to take advantage of them in the coming weeks.

Tax Break #1: A Generous Section 179 Allowance for New and Used Equipment (including Software)

Many businesses can qualify for an immediate federal income tax deduction for up to \$250,000 of purchased equipment and software. If your business uses the calendar year for tax purposes, the deadline for placing items in service is December 31, 2009. If your business uses a fiscal year (for example, one with an October 31 year end), your deadline is later.

Description	2009	2010
2009 Equipment Purchases	\$500,000	\$500,000
Section 179 1 st Year Depreciation (New or Used Equipment)	\$250,000	\$125,000
Bonus 50% 1 st Year Depreciation (Only New Equipment)	\$125,000	na
Normal 1 st Year Depreciation (Calculated at 5 years)	\$25,000	\$75,000
Total 1st Year Deduction	\$400,000	\$200,000
Tax Savings (Assume 35% Tax Rate)	\$140,000	\$70,000
Total Equipment Cost	\$360,000	\$430,000
2009 Savings	\$70,000	

This valuable tax break is called the Section 179 depreciation deduction. It's a helpful exception to the general rule that businesses must depreciate most equipment and software costs over several tax years. Both new and used assets qualify.

You may want to act soon to benefit from the super sized \$250,000 Section 179 deduction. Under current tax law, the maximum deduction amount is scheduled to drop to about \$135,000 for the 2010 tax year (we don't know

the exact figure because it depends on an inflation adjustment that has not yet been announced).

Implications for Businesses that Operate as Sole Proprietorships, Partnerships, LLCs, or S Corporations: With these entities, business income and deductions are "passed through". Section 179 deductions fall under a unique set of rules because limitations can apply first at the business level and then again at the personal Form 1040 level.

For example, say you're a co-owner of an LLC that uses a calendar tax year and is treated as a partnership for federal income tax purposes. On your 2009 Form 1040, you can potentially deduct your share of the LLC's Section 179 write-off for its 2009 tax year. However, when it comes to Section 179 deductions, you can't claim more than \$250,000

The above chart illustrates the potential impact of a 2009 machine purchase as compared to a 2010 purchase. Please note that you should contact your accountant to determine how the Section 179 Tax Incentive and Bonus Depreciation would impact your business.

Jim Stadler, Principle of J. Stadler Machine, a Mazak user for over 20 years indicated his recent purchase of three new Mazak machines would not have occurred without the benefit of the Section 179 savings.

“The huge tax savings realized by my company was the difference for us” Stadler said, “I wanted to buy newer, more productive equipment and the Section 179 pushed me over the edge”

Mazak Optonics Corporation
2725 Galvin Court
Elgin, Illinois 60124
847.252.4500

www.mazakoptonics.com
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in deductions on your tax return no matter how many businesses pass deductions through to you.

Bottom line: Before making any significant asset purchases, check with your tax adviser to make sure you understand how the Section 179 deduction rules will work in your specific situation.

Tax Break #2: First –Year Bonus Depreciation for New Equipment and Software

Another beneficial depreciation tax break is available for most new equipment and software, as well as certain leasehold improvements. (Used assets do not qualify)

This second tax break generally applies to qualifying assets that are purchased (not leased) and put to use by December 31, 2009. For these items, your business can generally claim first-year bonus depreciation deductions equal to 50 percent of the cost that remains after subtracting any allowable Section 179 write-offs.

Important: While larger businesses may be ineligible for the Section 179 deduction, 50 percent first-year bonus depreciation is available to any business regardless of size.

In addition, unlike Section 179 deductions, 50 percent first-year bonus depreciation deductions can create or increase an overall business tax loss for the year. In turn, that can create or increase a federal income tax net operating loss (NOL) for the year. Obviously, NOLs are much more likely in a bad economy, and they are very helpful to your business cash flow because you can carry them back to prior tax years and collect a refund for some or all of the taxes paid in those years.

Note: The five year NOL carry-back privilege was part of a tax law passed earlier this year and is only available to qualifying small and medium-sized businesses that generate losses in tax years that begin or end in 2008. In other circumstances, a two year NOL carry-back period usually applies. While congress might decide to extend the five-year NOL carry-back privilege to tax years beginning or ending in 2009, it might be unwise to count on it.

Conclusion: Under current law, the generous \$250,000 Section 179 deduction allowance and the valuable 50 percent first-year bonus depreciation tax break are both set to expire before too long. While Congress might decide to extend one or both, it might be more prudent to grab these tax-saving benefits now when they are certainties. That said, consult your tax adviser before taking action because the interplay of the rules involving Section 179, bonus depreciation, and NOLs can be tricky.

Please note that Mazak is not an expert on your tax position and therefore does not advise you on financial matters - you should contact your accountant to determine how the Section 179 Tax Incentive or Bonus Depreciation would impact your business.