Acquiring new equipment between now and the end of 2012, you will be able to take advantage of the Section 179 and the Bonus 50% First Year depreciation deductions for 2012. In fact, Uncle Sam will be paying you after-tax to acquire new equipment in 2012 as your first year's payments will be less than your Section 179 and Bonus 50% First Year depreciation deductions for 2012.

Below is more information regarding these tax benefits available to you between now and the end of 2012.

Equipment Leasing and Section 179

Did you know that your company can lease equipment and still take full advantage of the Section 179 deduction? In fact, leasing equipment and/or software with the Section 179 deduction in mind is a preferred financial strategy for many businesses, as it can significantly help with not only cash flow, but with profits as well.

Non-Tax | Capital Lease

The main benefit of a non-tax capital lease is that you can still take full advantage of the Section 179 Deduction, yet make smaller payments. With a non-tax capital lease you can acquire and write off $139,000 worth of equipment this year, without actually having to put $139,000 of cash out the door in 2012. A small business that is managing cash flow can leverage a non-tax capital lease and still take the Section 179 Deduction. Examples of non-tax capital leases include a $1 Buyout Lease and a 10% Purchase Upon Termination (PUT) Lease. In most cases, the amount you save in taxes will be MORE than the total of your first year's payments.

Equipment Financing

You may also obtain an equipment loan using an Equipment Finance Agreement (EFA) and still take the Section 179 and the Bonus 50% First Year depreciation deductions.

Advantages of Leasing and Financing

The obvious advantage to leasing or financing equipment and then taking the Section 179 deduction is the fact that you can deduct the full amount of the equipment (up to $139,000), without paying the full amount in 2012. The Section 179 deduction phases out dollar for dollar over $560,000. In addition, the Bonus 50% First Year depreciation deduction has returned for equipment placed into service by December 31, 2012. By combining the Section 179 and the Bonus 50% First Year depreciation deductions with the 7 Year MACRS Standard depreciation deduction, the amount you save in taxes will actually exceed your payments on the equipment for 2012, making this a very bottom-line friendly deduction.

Here are several examples of new equipment acquisitions for 2012 for your review:

Example for New Equipment Placed Into Service during 2012

Example Equipment Cost:	**$288,000**	**$380,000**	**$440,000**	**$560,000**	**$875,000**
Maximum Section 179 Depreciation Deduction for 2012: (Full deduction up to $139,000 which phases out dollar for dollar over $560,000)	$139,000	$139,000	$139,000	$139,000	$0
Adjusted Cost Basis	$149,000	$241,000	$301,000	$421,000	$875,000
Bonus 50% First Year Depreciation Deduction for 2012:	$74,500	$120,500	$150,500	$210,500	$437,500
Adjusted Cost Basis for MACRS	$74,500	$120,500	$150,500	$210,500	$437,500
7 Year MACRS Standard Depreciation Deduction for 2012:	$10,646	$17,219	$21,506	$30,080	$62,519
Total First Year Depreciation Deduction for 2012:	$224,146	$276,719	$311,006	$379,580	$500,019
Percentage of Equipment Cost You Can Write-Off in 2012:	77.8%	72.8%	70.7%	67.8%	57.1%
First Year Income Tax Savings (assuming 35% corporate tax):	$78,451	$96,852	$108,852	$132,853	$175,000
After Tax Equipment Cost after First Year Tax Savings:	$209,549	$283,148	$331,148	$427,147	$699,993
After Tax per Hour Cost: (based on four hundred hours operation per month and seven year financing)	$7.86/hr.	$10.63/hr.	$12.43/hr.	$16.03/hr.	$26.27/hr.
Estimated # of Payments covered by the Tax Savings: (based on a seven year financing):	18	17	16	16	13

NOTE: Equipment Must Be Placed Into Service during 2012 (January 1, 2012 through December 31, 2012).

Why 50% Bonus Depreciation is Preferred over 100% Section 179 Expensing

There are two significant benefits of 50% Bonus depreciation over expensing: first, 50% Bonus depreciation is not limited in amount; and second, 50% Bonus depreciation can create a net operating loss to be carried back to prior years and result in an immediate tax refund. Nonetheless, there will be circumstances where Section 179 expensing may be preferred over 50% Bonus depreciation. A taxpayer may take any portion of the expensing election as an immediate deduction, whereas 50% Bonus depreciation must be taken entirely, or elected out of by class life of property. This will generally be beneficial to taxpayers who need less than $139,000 in write off during the current year. Of course only expensing is allowed for used property; many taxpayers will take Section 179 expensing for their used property and 50% Bonus depreciation for their new property.

Ordering Rules Remain Unchanged

The method of computing depreciation when these various incentive provisions work together remains unchanged. The expensing election under Section 179 is considered first, followed by Bonus 50% First Year depreciation, and then by MACRS Standard depreciation. This concept is best illustrated by an example in which a taxpayer buys new and used metal fabricating equipment, for a price of $500,000 each. The taxpayer will choose to expense the new equipment under the Bonus 50% First Year depreciation rule, but will be limited to the Section 179 expense deduction for the used equipment. Because the Section 179 expensing deduction is limited to $139,000 for 2012, the remaining $361,000 of used equipment and remaining $250,000 of new equipment will generally be depreciated over seven years, resulting in a $87,285 Seven Year MACRS Standard depreciation deduction in the year of purchase and for each of the following six years. In summary, under this scenario the taxpayer will have a Total First Year depreciation deduction of $476,285, which is comprised of the Section 179 depreciation deduction of $139,000 plus the Bonus 50% First Year depreciation deduction of $250,000 plus the Seven Year MACRS Standard depreciation deduction of $87,285.

Example for $500,000 of New Equipment and $500,000 of Used Equipment Placed Into Service during 2012

Maximum Section 179 Depreciation Deduction for 2012:	$139,000	
Adjusted Cost Basis for Used Equipment		$361,000
Bonus 50% First Year Depreciation Deduction for 2012:	$250,000	
Adjusted Cost Basis for New Equipment		$250,000
Total Adjusted Cost Basis for Used and New Equipment for MACRS		$611,000
7 Year MACRS Standard Depreciation Deduction for 2012:	$87,285	
Total First Year Depreciation Deduction for 2012:	$476,285	
Percentage of Equipment Cost You Can Write-Off in 2012:	47.6%	
First Year Income Tax Savings (assuming 35% corporate tax):	$166,700	
After Tax Equipment Cost after First Year Tax Savings:	$833,300	
After Tax per Hour Cost: (based on four hundred hours operation per month and seven year financing)	$31.28/hr.	
Estimated # of Payments covered by the Tax Savings based on a seven year financing:	11	

NOTE: Equipment Must Be Placed Into Service during 2012 (January 1, 2012 through December 31, 2012).

So, how much can you save?

If the numbers look good to you, they can look even better with the right equipment financing. With interest rates holding steady, a solid equipment financing partner can make Section 179 and Bonus 50% Depreciation especially attractive in 2012. Canvass Capital can provide you with an Equipment Lease or Equipment Financing Agreement that is structured to allow you to take full advantage of the Section 179 deduction and the Bonus 50% depreciation deduction in 2012. And if you need to finance more than the allowed deduction limit for used equipment, you can depreciate the excess as illustrated in the previous paragraph.

In the end, to ensure that your property qualifies, please reference Publication 946.

US Tax Code Section 179 is a business equipment expense deduction that is provided for small and medium sized businesses. Any business acquiring less than $699,000 of equipment in 2012 qualifies for the Section 179 deduction although the maximum Section 179 deduction of $139,000 is reduced dollar for dollar for equipment acquisitions greater than $560,000. It is used by companies who elect to treat the purchase of qualifying property as an expense rather than a capital expenditure, and provides substantial tax relief. The Section 179 election, which is made on Form 4562, is for the calendar tax year the property was both purchased and placed into service (Jan 01 – Dec 31). For further details regarding Section 179 of the US Tax Code, contact your local tax advisor or visit www.irs.gov

Sincerely,

Canvass Capital, LLC

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Certified Lease Professional

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Benefits of Equipment Leasing:

Did you know that 80% of businesses nationwide lease capital equipment?

- Equipment leasing conserves working capital
- Equipment leasing provides 100% financing for equipment acquisitions
- Equipment leasing does not have to have your bankers blessing which allows existing bank and other lines of credit to remain untouched and available for working capital needs (accounts receivable and inventory), seasonal requirements, and other operating needs
- Equipment leasing provides an additional line-of-credit for equipment acquisitions
- Equipment leasing may allow a business to obtain equipment otherwise prohibited by restrictive loan covenants
- Equipment leasing provides cost-cutting or profit making equipment to be installed immediately
- Equipment leasing helps to overcome budget restrictions and limitations
- Equipment leasing helps to maximize cash-flow
- Equipment leasing does not require down payments, cross-collateralization, or compensating balances
- Equipment leasing allows you to afford more
- Equipment leasing may provide tax savings
- Equipment leasing may provide off-balance-sheet financing which provides balance sheet benefits by improving financial indicators such as your firm's debt-to-equity ratio or earnings-to-fixed-assets ratio
- Equipment leasing doesn't dilute ownership by requiring new investors or raising capital
- Equipment leasing provides specific equipment, chosen by the Lessee
- Equipment leasing provides equipment acquired from suppliers chosen by the Lessee
- Equipment leasing minimizes the problem of equipment obsolescence and maintenance
- Equipment leasing hedges against inflation
- Equipment leasing is flexible financing that can be matched to specific customer needs
- Equipment leasing offers long term fixed rate financing
- Equipment leasing improves ROA or ROI ratios
- Equipment leasing avoids alternative minimum tax
- Equipment leasing sale and leasebacks offer a variety of advantages to help liquidity or minimize tax problems
- Equipment leasing provides a fast application process and approval
- Equipment leasing makes a few cents work like dollars

For more information, call or send an e-mail to gtrebels@att.net.

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