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Act Now To Take Advantage Of Tax Breaks

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During the economic challenges of the past few years, many U.S. manufacturers refrained from investing in resources such as equipment in an attempt to conserve cash. As another sluggish year comes to a close, many are still making do with outdated and inefficient equipment. However, those who are considering an equipment acquisition at the end of this year can reap big benefits.

Although equipment leasing is a popular way for manufacturers to obtain new equipment at any time of year, many can take advantage of specific cost-savings opportunities by leasing equipment during the fourth quarter. With some tax breaks and economic stimulus measures expiring on December 31, for many manufacturers the fourth quarter of this year is a particularly appealing time to lease equipment.

Manufacturers considering an equipment acquisition should take the following into account:

Programs Expiring December 31, 2011

IRS Code Section 179. IRS Code Section 179 is a long standing tax break that received a boost through last year's Small Business Jobs Act. This modification to the IRS tax code (section 179) is particularly attractive to businesses with limited capital expenditure budgets. Under Section 179, any company purchasing $2 million or less in capital equipment during 2011 can deduct up to $500,000 of that expense from their gross income.

Companies acquiring more than $2 million in capital equipment during the year will need to manage the tax ownership of those assets in order to maintain a Section 179 write-off. By working with a qualified partner to lease assets over $2,000,000, the lease can often be structured so the finance company becomes the tax owner of the equipment, allowing you to maintain your Section 179 deduction on assets below that threshold.

In order to qualify for the Section 179 deduction, equipment must be purchased and put into use between January 1 and December 31, 2011, and must fall within certain equipment-type definitions. Items that generally qualify for the Section 179 Deduction include:

- Equipment purchased for business use (office machines, etc.)
- Computers
- Computer software
- Office furniture and office equipment
- Tangible personal property used in business
- Business vehicles weighing over 6,000 pounds
- Partial business use equipment -- equipment that is purchased for business and personal use. Generally, deductions will be based on the percentage of time the equipment is used for business purposes.
- Pre-owned equipment purchases also qualify as long as the purchase is made from a third party

More detailed descriptions of qualifying equipment can be found by visiting the IRS web site.

100 Percent Depreciation. For a limited time, qualifying businesses can write off 100 percent of the cost to acquire eligible equipment as a depreciation expense on 2011 tax returns. This unprecedented tax break is only available through the end of 2011 -- with certain exceptions for aircraft, vessels and rail stock; in 2012 the bonus drops to 50 percent of the equipment's cost.

All capital equipment is depreciated in some way, whether it's a cash-, borrowed- or leased transaction. Manufacturers considering new equipment now should evaluate how the depreciation benefit works best for the business based on the organization's current tax position.

Other Fourth Quarter Considerations

Attractive Rates. During the fourth quarter of the year, equipment finance companies can take advantage of specific tax rules that enable them to pass along lower rates than they can during the first nine months of the year. Manufacturers leasing capital equipment will find leases most attractively priced during October, November and December.

Mid-Quarter Convention. Any company acquiring more than 40 percent of its assets during the fourth quarter of the year is subject to the "mid-quarter" convention. Generally, mid-quarter convention rules reduce the depreciation available on equipment acquired throughout the year and increase income tax liability.

Using a lease to finance assets acquired during the fourth quarter allows companies to maintain the maximum allowable depreciation on earlier purchases while trading in the tax depreciation on equipment acquired in the fourth quarter for overall lower financing rates. What's more, most leases allow the user to retain the option to own the equipment at the end of the financing term.

General Benefits. At any time of the year, leasing capital equipment provides many benefits for manufacturers keeping a close eye on the bottom line. Leasing is a great way for companies of all types and sizes to acquire the equipment to remain competitive while conserving cash, as some lease programs require as little as no money down.

With leasing, adding or upgrading equipment is easy, which protects manufacturers from being stuck with outdated equipment, which is particularly important when it comes to rapidly evolving computer, software and manufacturing automation equipment.

For certain leases, lease payments can be structured to match cash-flow, which often means the increased revenue generated from the new equipment covers the cost of the monthly lease payment. Additionally, soft costs such as installation, service and support can often be rolled into the lease, allowing manufacturers to make one, predictable monthly payment for both equipment and services.

Act Now To Take Advantage Of Maximum Benefits

Leasing is a viable alternative to purchasing equipment at any time of the year, but manufacturers interested in taking advantage of tax benefits and economic stimulus provisions that expire on December 31, 2011 need to act fast. Look for a financially strong and knowledgeable equipment leasing company that understands the unique needs of your business and the nuances of fourth quarter leasing, and you'll have a head start on the competition before the New Year.

Always consult with a tax advisor before making equipment purchasing decisions.

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