2009 Tax Incentives Explained

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As you have probably heard by now, the US Government has passed several laws that provide businesses with "Tax Incentives" if they purchase equipment. These tax benefits are obviously intended to stimulate our struggling economy, but at the same time encourage small businesses to reinvest in themselves and improve how efficiently they operate – making them more competitive and successful. Well it all sounds great – but what are these "tax incentives"?? What is the actual benefit if you purchase equipment? How does it really work?

50% Bonus Depreciation

Bonus Depreciation allows businesses that were profitable to write off up 50% of a machine's purchase price. This means if you buy a machine for $300,000 – you can write off $150,000 – in other words, at the end of the year you don't pay taxes on that $150,000…if you were profitable (if not, you won't pay income tax anyway).

In addition to the 50% Bonus Depreciation, you also get the standard first year depreciation…which is 14.25%

So…let's say you want a machine, you need a machine – you've got some current work or could be getting some work that will run much easier/faster on that new waterjet, or drill line, or saw – whatever it may be. The machine has a price tag of $300,000. Your company expects to be in the 39% tax bracket (if your net income is over $75,000 – this is you). To make the calculations simple, let's say your company's net income for 2009 is $200,000.

$200,000 net income X 39% Tax bracket = **$78,000 your company owes in taxes.**

Now we factor in the bonus depreciation from buying a machine…

$300,000 price of machine x 50% bonus depreciation = $150,000 write off

$150,000 remaining price of machine X standard first year deprecation (14.25%) = $21,375 write off

$150,000 bonus write off + $21,375 standard write off = $171,375 total write off

$200,000 net income - $171,375 total depreciation write off = $28,625 adjusted net income.

$28,625 puts you in the 25% tax bracket = **$7,156 your company owes in taxes.**

You have saved $70,844 IN TAXES
Your $300,000 new machine now costs you only $229,156

Plus you have a new machine that has allowed you to:

- run parts faster
- run parts cheaper
- take on more work
- MOST IMPORTANTLY - MAKE MORE MONEY

Now…if you read carefully you noticed that this is for business that were/are profitable – so you need to have a great year right??? WRONG. Even if your business is slow and 2009 looks like an off year you can still use the Bonus Depreciation. The law allows businesses to carry this Bonus Depreciation back up to 5 years. So if 2006 was your best year, you profited $500,000…and paid a truckload of taxes…you can actually get a refund check back. Here's how it works…

$300,000 price of machine x 50% bonus depreciation = $150,000 write off

$150,000 remaining price of machine X standard first year deprecation (14.25%) = $21,375 write off

$150,000 bonus write off + $21,375 standard write off = $171,375 total write off

2009 Net Income - $0.00 no benefit for 2009

Now we factor in the carry back option…

2006 Net Income - $500,000 X 39% Tax bracket = $195,000 you paid in taxes

$500,000 Net Income - $171,375 total write off from 2009 = $328,625 adjusted income for 2006

$328,625 adjusted net income X 39% tax bracket = $128,164 adjusted tax amount for 2006

$195,000 paid taxes - $128,164 adjusted tax amount for 2006 = **$66,836 REFUND CHECK**

You just got a tax refund check for $66,836
Your $300,000 new machine now cost you only $233,164

Plus you have a new machine that has allowed you to:

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The 5 Year Carry Back option on the Bonus Depreciation is available to businesses with gross receipts of $15 million or less.

Section 179

Section 179 allows businesses to write off up $250,000 – if they purchase NEW OR USED equipment, provided that equipment investments for the year are $800,000 or less. If your qualified equipment investments exceed $800,000 – the maximum tax deduction amount reduces from $250,000 on a dollar for dollar basis. For example, you buy a machine or several machines that total $875,000. You have exceeded the $800,000 limit by $75,000 – thus your maximum tax deduction is reduced by $75,000 to $175,000.

Again this is beneficial if your company earns a profit, if not, you won't pay income taxes anyway. Section 179 benefits apply to the current year only, so there is no carry back option with this incentive.

For this example, let's say the machine price is once again $300,000.

$300,000 price of machine qualifies for the $250,000 Section 179 write off so you immediately subtract $250,000 from $300,000. This leaves you with a balance of $50,000.

$50,000 remaining price of machine X 50% bonus depreciation = $25,000 bonus write off

$25,000 remaining price of machine X standard first year depreciation (14.25%) = $3,562 write off

$250,000 Section 179 + $25,000 bonus + $3,562 standard = **$278,562 TOTAL WRITE OFF**

So…if your company is profitable and lands in the 39% tax bracket that means you could have a significant tax savings.

$278,562 total write off X 39% tax bracket = up to **$108,639 TAX SAVINGS (dependent on net income)**

Once again…you have saved up to $108,639 IN TAXES
Your $300,000 new machine now cost you only $191,361

Plus you have a new machine that has allowed you to:

- run parts faster
- run parts cheaper
- take on more work
- MOST IMPORTANTLY - MAKE MORE MONEY

****Be sure to consult with your accountant or tax attorney to discuss your situation.****