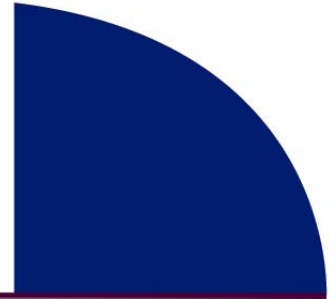




## IRS Section 179 Tax Savings



### IRS Section 179

Under IRS Section 179, equipment purchases of up to \$100,000\* can be expensed (deducted from taxable income) in the first year eligible property is placed in service in a trade or business. Finance leases (\$1.00 buyout) qualify for this deduction in their year of inception. The 2003 law quadrupled the amount of qualified property that can be expensed under IRS Section 179 from \$24,000 to \$100,000 (indexed for inflation) for tax years 2003, 2004, and 2005. The American Job Creation Act of 2004 has extended the use of the \$100,000 ceiling for two more years, through 2007. Qualifying property now also includes off-the-shelf computer software.

Any purchase in excess of \$400,000\* (indexed for inflation) reduces the \$100,000\* Section 179 limit (dollar amounts are indexed for inflation). For example, if you purchase \$410,000 in qualifying property, the Section 179 deduction is limited to \$90,000.

The total cost of property that may be expensed for any tax year cannot exceed the total amount of taxable income (determined after application of the investment limitation) derived from the active conduct of any trade or business during the tax year. Costs disallowed under this rule may be carried forward an unlimited number of years subject to the ceiling amount for each year.

The maximum amount of asset cost that can be expensed by year is: \$100,000\* for 2005 through 2007. For example, if you purchase or lease a piece of equipment for \$45,000 and install it in 2005, you are eligible to take a \$45,000 tax deduction in the respective year.

Please note: Contact your tax advisor for specific information regarding IRS Section 179 and all accounting procedures.

\* Dollar amounts for 2005 will be indexed for inflation

**Consider the following examples:**

	<b>Example #1</b>	<b>Example #2</b>
Acquisition cost of qualifying property	\$200,000	\$ 50,000
Less: Threshold for Section 179 phase out*	\$400,000	\$400,000
Amount exceeding threshold	\$0	\$0
1st Year Write-off: Maximum Tax Code 179 *	\$100,000	\$100,000
Less: Amt exceeding threshold	\$0	\$0
Section 179 Deduction *	\$100,000	\$100,000
Acquisition cost of qualifying property	\$200,000	\$50,000
Less 179 Deduction *	\$100,000	\$50,000
Less Normal 1st Year Depreciation **	\$20,000	\$0
Total Deduction 1st Year	\$120,000	\$50,000
Marginal Tax Rate (Assumed)	35%	35%
<b>Your Tax Savings</b>	<b>\$42,000</b>	<b>\$17,500</b>

\* Section 179 deductions for 2005 will be indexed for inflation

\*\* 20% depreciation based on a 5-year asset life

Please consult your tax advisor regarding IRS Section 179 and all accounting procedures.

