

Fourth down

4Q equipment finance nets better pricing, tax benefits

By Ken Turner

If you're holding more tightly to your cash and keeping an even more discerning eye on the bottom line this year, you're not alone. During the current economic downturn, many businesses are evaluating how to best allocate resources and meet year-end budget goals.

What many people don't realize, however, is that the fourth quarter is often the most advantageous time of the year to finance capital equipment.

Leasing preserves cash by offering 100 percent financing, affordable monthly payments and the ability to include "soft costs" such as shipping, installation, training and support. You can even match payments to seasonal cash flow. It's also easy to upgrade or add equipment to meet changing business needs, and by leasing technology equipment companies are able to protect against the threat of equipment obsolescence.

But during the fourth quarter of the year leasing companies can take advantage of specific IRS rules allowing them to pass along even more savings than usual to clients in the form of lower rates. In fact, it's at the end of the year that leases are often the most attractively priced.

Enhanced tax management

Leasing can be a cost-effective choice for capital equipment acquisitions because it can also help manage your tax liability. Certain tax considerations, such as the ability to expense payments or deduct interest and depreciation are available, depending on the type and structure of the lease.

The IRS does not consider certain leases to be a purchase but rather a tax-deductible overhead expense, which may allow payments to be fully deducted as business expense on the company's tax return. In addition, some leases may be considered operating leases for accounting purposes, meaning they do not appear as debt on a company's balance sheet.

If your company has purchased equipment this year, you should consider whether you can take advantage of a temporarily increased and extended tax benefit. The IRS Code Section 179 provides accelerated write-offs for capital equipment that small businesses purchase and own for tax purposes.

Until August 31, 2011, businesses purchasing \$500,000 or less in capital equipment during any tax year can deduct up to \$125,000 of that expense on their tax return. In 2011, the capital expense limit will decrease to \$200,000 and the available tax write-off will decrease to \$25,000. For businesses that acquires more than \$500,000 in capital assets during any given tax year, the deduction decreases by \$1 for each dollar spent over the capital expenditure limit.

Leasing might be the best way to preserve a growing company's ability to take a Section 179 deduction on the first \$500,000 of equipment it purchases in a year. By leasing equipment acquisitions that exceed \$500,000 and allowing the leasing company to be the tax owner of that equipment, your company may be able to retain its full Section 179 deduction.

Companies acquiring large amounts of capital equipment in the fourth quarter should also consider leasing in order to maximize the depreciation on equipment purchased earlier in the year. Companies acquiring more than 40 percent of their capital equipment in the fourth quarter are required by the IRS to recalculate the depreciation for all of that year's equipment purchases using what is known as the mid-quarter convention.

This requirement can cause a dramatic reduction in the amount of depreciation a company can take on its tax returns. Using a lease to finance assets acquired in the fourth quarter can help avoid triggering this rule.

Using a tax lease to finance equipment allows you to trade in unused tax benefits in return for an overall lower cost of financing. Plus, depending on the structure, a lease could result in improved cash-flow and financial statement ratios. You should, of course, consult your tax advisor to clarify your business situation before entering into a leasing agreement.

Finding the right partner

Keep in mind that the leasing company you select will be responsible for owning the equipment you're relying on, therefore it's important to choose your lessor carefully. Look for a financially strong and knowledgeable company that understands leases, debt products and your industry. Work with an equipment finance expert who understands the unique needs of your

business and has the experience to be an asset to you.

Like all business decisions, it's smart to do your homework before signing on the bottom line. The Equipment Leasing and Finance Association recommends business ask the following 10 questions before signing a lease.

Before

- How am I planning to use this equipment?
- Does the leasing representative understand my business and how this transaction helps me to do business?

During

- What is the total lease payment and are there any other costs that I could incur before the lease ends?
- What happens if I want to change this lease or end the lease early?
- How am I responsible if the equipment is damaged or destroyed?
- What are my obligations for the equipment (such as insurance, taxes and maintenance) during the lease?
 - Can I upgrade the equipment or add equipment under this lease?

After

- What are my options at the end of the lease?
- What are the procedures I must follow if I choose to return the equipment?
- Are there any extra costs at the end of the lease?

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