



IRS Section 179 Tax Savings



IRS Section 179

Under IRS Section 179, equipment purchases, up to \$100,000, can be expensed (deducted from taxable income) if installed by December 31st. Finance leases (\$1.00 buyout) qualify for this deduction in their year of inception. The 2003 law quadruples the amount of qualified property that can be expensed under IRS Section 179 from \$24,000 to \$100,000 for tax years 2003, 2004, and 2005. Qualifying property now also includes off-the-shelf computer software.

Any purchase in excess of \$400,000 (2004 threshold) reduces the \$100,000 Section 179 limit. 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 2004 and 2005
- \$ 25,000 for following years

For example, if you purchase or lease a piece of equipment for \$45,000 and install it in 2004, you are eligible to take a \$45,000 tax deduction in the respective year.

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

Job and Growth Tax Relief Reconciliation Act of 2003

Under the Job and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA) there is a 50% Depreciation Bonus for qualified capital investments by businesses, on equipment placed in service through the end of calendar year 2004. This is an increase from the 30% allowed under the Job Creation and Workers Assistance Act of 2002.

Highlights of the tax changes as it affects equipment purchases:

1. JGTRRA allows taxpayers to claim an additional first-year depreciation allowance equal to 50% of the adjusted basis of qualified property.*
2. Equipment must be acquired and placed in service before 12/31/2004.
3. Taxpayers may elect to use a 30% depreciation rate in lieu of the increased 50% rate.

Qualified property is tangible, personal property with a MACRS recovery period of 20 years or less.

Please consult your tax advisor regarding this accelerated depreciation opportunity and all accounting procedures.

Continued....

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Consider the following examples:

	Example #1	Example #2
	2004	2004
Acquisition cost of qualifying property	\$210,000	\$ 50,000
Less: Threshold for Section 179 phase out	\$400,000	\$400,000
Amt 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	\$210,000	\$50,000
Less 179 Deduction	\$100,000	\$50,000
Base for 2003 JGTRRA		
Bonus Depreciation	\$110,000	\$0
Bonus Depreciation Rate	50%	50%
Bonus Depreciation	\$55,000	\$0
Normal 1st Year Depreciation	\$11,000	\$0
Total Deduction 1st Year	\$166,000	\$50,000
Marginal Tax Rate (Assumed)	35%	35%
Your Tax Savings***	\$58,100	\$17,500

* 50% Depreciate Bonus After Tax Code 179

** 20% Depreciation based on a 5-year asset life

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