



Tax Cut 2003: What It Means for Your Business

Jobs and Growth Act. Bonus depreciation. Section 179 elections. The tax landscape has changed so rapidly in the past two years, that it's hard to keep up. The 2002 and 2003 economic stimulus packages were intended to boost the economy by cutting taxes, but what exactly have they done to ease your company's tax burden? This communication will summarize the basics of the Jobs and Growth Tax Reconciliation Act of 2003 (2003 Tax Act) and explore its impact on equipment acquisitions.

Section 179

The 2003 Tax Act now allows businesses that purchase \$400,000 or less in qualifying business or trade-related equipment during a single year to write off up to \$100,000 of that expense immediately in the same tax year. This applies to equipment a business places in service between January 1, 2003 and December 31, 2005. Any remaining purchase cost that cannot immediately be expensed under Section 179 may be depreciated using MACRS and might also be eligible for bonus depreciation. Section 179 applies only to equipment that the business owns for tax purposes as of the end of the tax year.

Bonus Depreciation

For companies with larger capital expenditure budgets or who opted out of the Section 179 election, equipment purchases may be eligible for 50% bonus depreciation in the first year plus standard MACRS deductions. If the equipment is new and was placed in service between May 6, 2003 and December 31, 2004 (with no written binding contract for purchase prior to May 6, 2003), the business could depreciate 50% of the cost of the equipment in the first year. Also beginning in the first year, the remaining cost may be depreciated using standard MACRS. For property with a 5 year MACRS life, this results in a total of 60% of the equipment cost depreciated in the first year. Companies eligible for Section 179 but who purchase more than \$100,000 of equipment annually may be able to apply the bonus depreciation and MACRS deductions to the remaining cost of the equipment, after the Section 179 deduction has been subtracted.

Make It Work for You: Magnify the 2003 Tax Cut with Leasing

The 2003 Tax Cut could provide your company with enough financial incentive to step up its capital acquisitions. But, consider the following: Will your company generate enough taxable income this year to fully utilize the benefits of bonus depreciation? Are you transitioning out of Section 179 eligibility? Do you have net operating loss (NOL) carry-forwards that will expire soon? What combination of purchases and leases will help you maximize the various components of the 2003 Tax Cut? The following example shows how leasing might help:

\$1,000,000 Annual Capital Expenditure Budget*	
<i>Leasing Solution</i>	<i>Purchase Solution</i>
<ul style="list-style-type: none"> • Purchase first \$400,000 with loan financing. • Lease remaining \$600,000. • PV After Tax Cash Flow: \$627,227 	<ul style="list-style-type: none"> • Purchase first \$200,000 with cash. • Purchase remaining \$800,000 with loan financing. • PV After Tax Cash Flow: \$630,321
LEASING SOLUTION ADVANTAGE = \$3,094	

*Assumes all equipment is 5 year MACRS and eligible for 50% bonus depreciation. Assumes lease/loan term of 60 months. Lease assumes 10% residual. Loan assumes full payout. Rates based on comparable closing dates, customer credit profile and treasury rates. Assumes a discount rate of 4% that represents lessee's after-tax cost of capital.

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The previous example demonstrates how leasing can be an important component of your financial strategy. This company was able to maximize the benefit of the tax cut by limiting its capital purchases to \$400,000 (the Section 179 capital limit). By leasing the remainder of its capital expense budget, the company was able to trade in the tax benefits of equipment ownership for lower financing rates and still deduct the entire lease payment from its taxable income.

Our professionals will work with you to determine the best structure to meet your company's financial and tax planning goals. Only your financial and legal advisors can assess the specific impact that any financial structure will have on your company. Key Equipment Finance offers equipment finance solutions for a wide variety of equipment types across a diverse set of industries. For more information on our equipment finance capabilities, please contact one of our leasing professionals or visit us on the web at www.KEFonline.com.

As a service to our clients, KEF is providing this brief overview to raise client awareness and to help prepare clients for the impact of these changes. The aforementioned represents the interpretations and comments of Key Equipment Finance. Before entering into any equipment financing arrangement, you should consult your own financial and legal advisors.