



Buying Equipment – Cut Costs and Taxes

Have you ever bought a new "state-of-the-art" machine only to discover that you paid dearly for some bells and whistles you didn't really need?

Or maybe you invested in a bargain basement piece of business equipment that wound up being more trouble than it's worth. For example, a stripped-down photocopier machine that doesn't collate documents or an inexpensive fax machine that requires employees to hand-feed the individual pages.

These buying mistakes are costly to your business -- and they can even be embarrassing if they wind up causing more mistakes.

Here's a basic plan for buying reasonably priced equipment that meets your business needs:

Analyze the tasks the equipment must perform. With a "needs analysis," your company can identify exactly what the machines will be used for and what features are essential. Brainstorm with the people who will actually work with the equipment. Don't even think about shopping until your company's requirements are clear.

Compare specifications and prices. Check with professional and industry associations to see if they conduct tests of business machines. Trade publications are another potentially valuable source of product reviews.

Ask for references. If you're making a significant investment, ask the manufacturer or distributor for references from other companies in your line of business. When contacting the references, inquire about the performance and reliability of the equipment and whether the supplier provides maintenance and repair services.

Buy it used. There are dealers who sell barely-used office furniture and machines for a fraction of the original cost. Many of the castoffs came from companies that went out of business after a short time. Auctions provide exceptional opportunities too.

Keep taxes in mind. There are complex laws governing the tax deductions your company can claim for computers and other office equipment. Take a look at a few tips below and consult with your tax professional *before* buying expensive machinery to get the best results.

If you do your homework, the right equipment choice will become obvious. If you're uncertain, postpone the purchase temporarily or consider leasing the equipment. When it comes to expensive office machines, you're better off sure than sorry.

Tax-Saving Equipment Tips

- If you're buying new equipment for your company on an installment plan, you probably have to pay *interest* as part of the deal. Separate the interest component from the cost of the equipment. The reason: Interest is deductible in the year it's paid so you can get a fast write-off. In contrast, the cost of the equipment must be depreciated over a specific recovery period (for example, seven years).
- Obtain the fastest possible deductions with the "Section 179" election. The maximum Section 179 allowance for tax years beginning in 2010 is \$250,000. So instead of depreciating

equipment over several years, you can write off the entire cost in one year if you qualify and make this election, even if the cost is financed.

- Many business owners are involved in more than one venture. In the case of pass-through entities (partnerships, LLCs, and S corporations), the dollar limitation rules for the Section 179 deduction apply at both the entity level and the owner level. (*IRS Regulation 1.179-2*) Therefore, advance planning may be necessary to maximize Section 179 deductions at the owner level, which is where the write-offs really count. Consult your tax adviser for details.