CPA

Practice **Advisor**

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lease"). This gives you the option to return the equipment at the end of the lease term with no obligations. You can walk away, or if you want to continue to use the ...

Sep. 21, 2015



As things stand now, the tax breaks for buying depreciable business property have been watered down for the 2015 tax year.

Strategy: Consider leasing business equipment instead of buying it. Generally, you can write off the entire cost of leasing without a huge upfront commitment.

Also, leasing isn't forever. If the tax breaks for buying property are revived, you may

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with no obligations. You can walk away, or if you want to continue to use the equipment, you can renew the lease or buy the equipment at the going price.

With that type of true lease, you can deduct your annual lease payments in full. That may be preferable to buying equipment that will result in multiyear depreciation deductions. For example, a three-year lease may provide more valuable tax benefits than equipment that must be depreciated over seven years.

Furthermore, the alternative minimum tax (AMT) may limit your depreciation deduction for equipment purchases. In contrast, the AMT doesn't reduce deductions for leasing equipment. Therefore, if your company can't take full advantage of the tax benefits of owning equipment, leasing may be a better option.

5 nontax benefits of leasing

There are at least five nontax advantages of leasing over buying equipment.

- 1. Smaller capital outlay: Leasing requires a lower upfront cash expenditure than the 10% to 20% down payment often required for purchased equipment. As a result, your business can keep more cash on hand for other purposes.
- 2. **Keeping up-to-date:** When you buy equipment, you run the risk that it will become obsolete before the end of its useful life. But leasing usually provides three options at the end of the lease term: Renew the lease, buy the equipment or just walk away.
- 3. **Short-term goals:** If your company only needs the equipment for a relatively short period of time, leasing could be the way to go. Conversely, if you buy the equipment, you'll have to recoup part of the cost through a resale.
- 4. Lower acquisition costs: Certain types of equipment may be more available at a reasonable price from leasing companies. Plus, leasing may speed up the acquisition process.

5. Favorable accounting procedures: Notably, certain equipment obtained via a

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whether Congress extends depreciation tax breaks through 2015, the tax benefits of ownership may be too attractive to ignore.

Tip: Keep an eye on the latest developments in Congress.

Bigger deductions for buying equipment?

Momentum is building for restoration of more favorable tax rules for acquiring depreciable business property, including software.

Earlier this year, the House passed "America's Small Business Tax Relief Act of 2015" (H.R. 636), preserving a maximum Section 179 deduction of \$500,000 for tax years beginning in 2015 and making it permanent for future years. The move was largely symbolic because the Senate never voted on the measure.

But both the House Ways & Means Committee and the Senate Finance Committee are working on bills that would extend a higher maximum deduction under Section 179 as well as extend 50% first-year bonus depreciation to cover qualifying new assets and software placed in service in calendar year 2015.

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