2011 Update - SECTION 179

Tax Breaks for American Small Businesses

Along with payroll tax exemptions designed to reduce the number of unemployed workers, the Hiring Incentives to Restore Employment (HIRE) Act of 2010 was also designed to encourage businesses to improve their productivity by investing in new equipment and technology.

The original $17.5 Billion legislation package was later updated to extend the incentives through to the end of 2011 and increase write-offs for investment in new equipment. Under this program, small businesses may be able to expense the full cost for equipment purchases valued at up to $500,000* this year. This new limit represents a significant increase over previous stimulus packages.

Under the US Tax Code, businesses are permitted to offset their investment in certain types of capital equipment against their taxable income. Normally the deductions are claimed in incremental amounts each year based on prescribed schedules provided by the IRS. The schedules are designed to match allowable expenses to the projected economic useful life for various types of equipment. These expenses encourage business investment by reducing taxable income and taxes payable. So adjusting the rate for deductions generally stimulates or impairs overall business spending.

This incentive plan did contribute to a spike in U.S. business spending at the end of 2010, and is expected to have a similar effect for 2011. However unlike last year, there has been no announcement of an extension for this program. This has lead to some speculation that 2011 will be the last year such generous incentives are offered. To qualify under the current program, purchases must be made on or before December 31, 2011.

Small businesses may be able to expense the full cost on equipment purchases of up to $500,000 this year.

Although these deductions would be appealing to commercial enterprises of all sizes, the program is deliberately designed so that only well-managed small businesses are likely to benefit. The act includes a provision that reduces the allowable expenses by one dollar for every dollar over $2,000,000 that a business spends on new equipment. For example, a company that purchases $2,100,000 in new equipment in 2011 would lose $100,000 of the accelerated write-offs available under the HIRE Act. Businesses also must have sufficient net income to claim the extra deduction for this tax year as there is no carry-forward provision. Enterprises that are not profitable or go well beyond the $2,000,000 spending cap may still be able to claim standard depreciation allowances, but they won't gain nearly as much benefit as they could under this program.

Businesses that would qualify otherwise but don't have sufficient cash available to invest in new equipment may still be able to take advantage of this rare opportunity. Westport Leasing is offering financing programs which will meet the criteria required under the HIRE Act. Westport finances a wide variety of capital assets and can provide the funds necessary to acquire virtually any type of new equipment that a business might need.

For more information about the programs and services available from Westport Leasing, please call or visit our web site.

To review the "Hiring Incentives to Restore Employment Act" visit the IRS Publications web site at:
www.irs.gov/publications/p946/ch02.html#n_US_publink1000107413

**This information is provided as a commentary on certain legislation relating to Section 179 of the Internal Revenue Service Tax Code. It is intended for general discussion purposes only and readers are instructed to consult qualified accounting, legal and tax professionals for advice and counsel regarding their investment & tax management strategies.*

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