USE BONUS DEPRECIATION TO GET THE MOST VALUE FROM YOUR IT LEASE

From time to time, Congress offers additional incentives to companies in an effort to encourage investment in new capital assets, foster business growth and stimulate the economy. In December of 2015, Congress passed a tax extenders package known as the Protecting Americans from Tax Hikes (PATH) Act of 2015, which solidified several depreciation-related provisions. It included an extension of bonus depreciation applicable to assets acquired, including via a lease agreement, through the year 2019. This means businesses are able to depreciate an additional percentage of the cost of new equipment, including software, hardware and other technology, acquired and put into service during 2015, 2016 and 2017.

Bonus depreciation is a temporary tax incentive that allows you to take an immediate, additional deduction from the investment of eligible business property and equipment. It's a means of accelerating depreciation which allows a business to make an additional deduction of the cost of qualifying property on top of the regular depreciation allowance that is normally available.

The current bonus depreciation deduction rate is 50 percent (see chart below). The benefit is designed primarily for small to medium businesses to accelerate the write-off of the cost of capital assets against their tax liability. When fully leveraged and applied within your IT equipment lease strategy, bonus depreciation can prove a valuable money-saving tool, making it financially easier for you to keep up with the pace of technology innovation.

How does it work?

Bonus depreciation is calculated after the Section 179 expense is taken and before current year depreciation is calculated. The 179 deduction allows businesses to deduct the full value of qualifying equipment during the tax year. Businesses can use Section 179 alone, combine it with bonus depreciation, or take bonus depreciation alone.

In order to fully leverage the incentives available, you can lease qualified business property and put it into service the same year. You are then eligible to take an additional, or "bonus" depreciation of the remaining basis immediately. This is an added value for those who already calculated a return on investment of their IT equipment before bonus depreciation. From here, depreciation continues as normal for the remaining balance of the assets.

Following is an example to help illustrate how the bonus depreciation is calculated:

Your company is currently in need of new servers. You decide to invest in IT equipment with a value of **$300,000** and determine that a Veristor Capital 60-month lease is the right one for your business. The hardware is implemented, and lease payments begin December 1, 2016.

Your Bonus Depreciation at this time is 50 percent of the $300,000 purchase, or **$150,000**.

In addition, the modified accelerated cost recovery system (MACRS) on the balance in year one is 20 percent of the remaining $150,000, or **$30,000**.

You make one lease payment of $5495 in that year for the equipment which has been fully implemented in your organization.

Total depreciation for year one is $150,000 + $30,000 or **$180,000**, which, on average, will save you almost **$65,000** in Federal taxes for 2016.

What Qualifies?

For property placed in service before Jan. 1, 2016, bonus depreciation is available if the following criteria are met:

1. New MACRS property with a recovery period of 20 years or less, computer software, water utility property, and qualified leasehold improvement property
2. The property must be acquired by the taxpayer after Dec. 31, 2007 and before Jan. 1, 2016
3. The property must be put into service before Jan. 1, 2016
4. The taxpayer must be the original user of the property

For property placed in service after Dec. 31, 2015, bonus depreciation is available if the following criteria are met:

1. New MACRS property with a recovery period of 20 years or less, computer software, water utility property, and qualified improvement property
2. The property must be placed in service before Jan. 1, 2020
3. The taxpayer must be the original user of the property

Variable Rates

Bonus depreciation continues to exist after 2017 but at a lesser rate, phasing down to 40 percent in 2018 and 30 percent in 2019. The established rate of bonus depreciation is currently at 50 percent and will eventually decrease in 10 percent increments as shown in the chart below. Since this is a one-time bonus, even though rates change year to year, the rate is effective based on the year your equipment is acquired.

Bonus Depreciation Rates Over Time

Start date	End date	Bonus rate
Sept. 11, 2001	May 5, 2003	30%
May 6, 2003	Dec. 31, 2004	50%
Jan. 1, 2008	Sept. 8, 2010	50%
Sept. 9, 2010	Dec. 31, 2011	100%
Jan. 1, 2012	Dec. 31, 2017	50%
Jan. 1, 2018	Dec. 31, 2018	40%
Jan. 1, 2019	Dec. 31, 2019	30%

Source:
Baker Tilly

Don't Let the Opportunity Slip Away

With a 50 percent bonus depreciation, the current environment provides a significant tax advantage and the best opportunity for capital investment in technology assets. A Veristor Capital lease can help you secure both the equipment and the bonus depreciation benefit to maximize your return on investment. Together, we can discuss technology investment strategies that can help make the current bonus depreciation tax benefit work for you - before these incentives begin to slip away.

For more information and a detailed explanation of the bonus depreciation and how it applies to your IT investment strategy, talk to someone from the experienced team at Veristor Capital. Visit **veristor.com/capital** for more information.