



Tax Benefits for Capital Equipment

Section 179 Expense Deduction Decreasing for 2010:

For small- business owners, the clock is ticking on some favorable tax incentives. If your business is healthy enough to buy equipment or software, the federal income tax perks for doing so are better than ever. Below are some things to consider before the year is over.

Supersized Section 179 Deduction Privilege Has Short Shelf Life For tax years beginning in 2009, many small businesses can potentially deduct up to \$250,000 of purchased (not leased) equipment and software as soon as these items are put to work under the rules for IRC Section 179 depreciation provisions. Both new and used assets are eligible. However, there is an investment limitation of \$800,000 where an annual dollar limitation is reduced dollar for dollar by the cost of section 179 property placed in service during the tax year in excess of an investment limitation. But to take advantage of the \$250,000 allowance, the assets must be purchased in tax years beginning in 2009. The allowance decreases to only \$135,000 for tax years beginning in 2010. So if your business uses the calendar year for tax purposes, you only have until Dec. 31 to take advantage of the generous \$250,000 allowance (unless Congress extends the tax break). While the Section 179 deduction can be a very sweet deal, there are a few things you need to know before charging out to buy a bunch of equipment and software in hopes of lowering your tax bill. In addition, California does not conform to the Federal rule, and instead limits the deduction to only \$25,000.

If a Business Is a C Corporation

Businesses operating as a regular C corporation cannot claim a Section 179 deduction that would create or increase a tax loss for the year. In other words, the deduction is limited to the amount of corporate taxable income before the deduction.

If a Business Is a Sole Proprietorship, Partnership, LLC, or S Corporation

If a business is a sole proprietorship, partnership, LLC or S Corporation, these deductions are passed through to the owner and written off on the owners personal Form 1040. However, the Section 179 deduction rules have various limitations can apply at the partnership, LLC, and S corporation level and at the personal level, as well. Individuals can not claim Section 179 deductions that would create or increase an overall business tax loss on a Form 1040

Temporary Bonus Depreciation Break Is Worth More in the Weak Economy

A significant tax break is available for most new (not used) business equipment and software and some leasehold improvements that are purchased (not leased) and put into use by Dec. 31, 2009. For these assets, a small business can generally claim first-year bonus depreciation deductions equal to 50% of the cost that's left over after subtracting allowable Section 179 deductions (if any). Both Section 179 deductions and bonus depreciation write-offs can be used to create or increase an overall business tax loss for the year -- which can, in turn, create or increase a net operating loss (NOL) for the year

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