

Immediately Deducting The Cost of Equipment

By Charles Clar

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This feature deals with USA tax laws and how you can use them to your advantage. It is made available on a more or less biweekly basis.

Immediately Deducting The Cost of Equipment

Under current tax law, small businesses can deduct up to \$24,000 spent this year to purchase equipment rather than depreciating the cost over several years. The amount was scheduled to remain the same in 2002 and increase to \$25,000 in 2003.

However, on October 24, 2001, the U.S. House passed a bill that temporarily increases the deduction to \$35,000 for both 2002 and 2003. This is a significant change and bears close scrutiny by the tax savvy as action moves to the Senate.

This special writeoff method (IRS calls it "Section 179" or "first year expensing") is intended to give smaller businesses a simple and fast way to deduct the cost of business equipment. It's an incentive to purchase now rather than later because of the favorable immediate tax consequences.

There are several restrictions, however.

The deduction is generally limited to the amount of taxable income you have from your business. However, there is an exception if you have income from another job. IRS allows an employee with a sideline business to count the salary he/she earns from the regular job as business income when figuring the limit on the expensing deduction for the business.

For personal computers and cellular phones to qualify for expensing, they must be used more than fifty percent for business purposes. Special limits also apply to cars.

The bottom line is that this tax technique, when properly used, can result in significant tax savings for the small business owner.

As always, PLEASE make sure you read and understand the fine print. It wouldn't be taxes in America otherwise!

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