

# New Tax Law Turns Small Biz Loophole Into A Crater!

By Wayne M. Davies

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<http://www.YouSaveOnTaxes.com/toolkit.html>

In case you were too busy over Memorial Day to notice, our beloved politicians just passed another tax bill designed to put more dollars in your pocket.

President Bush signed the new tax law on May 28, 2003 -- and there is truly something for everyone in this package, a veritable smorgasbord of tax savings.

If you are a Small Business Owner or Self-Employed Person, there's one especially lucrative tax break.

It's actually an expansion of a tax rule that's been on the books for years. Known as the Section 179 deduction, the new legislation takes this loophole and turns it into a deduction big enough to drive a fleet of SUV's through.

The Section 179 deduction enables the Small Business Owner to deduct 100% of the cost of most business equipment, in lieu of depreciation over several years.

What's so great about that?

Think about it like this: I've got a dollar and I'd like to give it to you. You have two choices -- I give it to you now, or I give it to you 5 years from now.

Which do you prefer?

Obviously, you'd rather have it now, right?

And why is that?

Because of what you learned way back in Finance 101: something your banker calls "the time value of money."

I'll spare you a boring textbook definition. Instead, let's just assume we agree on this simple point: Is a dollar worth more today or 5 years from today?

It's worth more today.

And that's why the Section 179 deduction is so valuable.

Huh?

Let's use an example to bring all this financial theory into reality.

You buy \$5,000 worth of office equipment in 2003. Under normal depreciation rules, you wouldn't get to take a deduction for \$5,000 in 2003. Instead, you'd write off the \$5,000 over 6 years -- part in 2003, part in 2004, etc.

If you're in the 35% tax bracket, you get your \$1,750 in tax savings over 6 years. Yawn. That's a long time!

You'd get your deduction, and the resulting tax savings, but you'd have to wait 6 years to realize all the benefits.

Section 179 says that if you meet certain requirements, you can deduct the full \$5,000 in 2003. You reduce your taxes by \$1,750 in Year 2003.

So let me repeat my rhetorical question: Uncle Sam has \$1,750 he'd like to give you. When do you want it? All at once, or spread out over 6 years?

That's the beauty of Section 179.

But you have to meet certain requirements to benefit from Section 179. One requirement concerns the total amount of equipment you can deduct rather than depreciate. In 2002, the amount was \$24,000. And for 2003, the amount was originally set at \$25,000.

Until Congress and the President passed the new tax bill in late May 2003 that raised that amount to a whopping \$100,000.

Never liked depreciation? Well, you can pretty much kiss it good-bye now. If your business buys more than \$100,000 of equipment in a single year, it ain't so "small" any more! So this new law should cover all small businesses. Enjoy!

One final note: A few other requirements must be met to

claim the Section 179 deduction. Here's a brief overview:

1. Most personal property used in a trade or business can be deducted via Section 179. Real property cannot. Typical examples of personal property include: office equipment such as computers, monitors, printers and scanners; office furniture; machinery and tools. Real property means buildings and their improvements.

2. Your total Section 179 deduction is limited to the business' annual profit. In other words, you cannot use the Section 179 to create or increase a loss.

This is known as the "taxable income limitation." For "C" Corporations, this limitation is very cut and dried. But if your business is an "S" Corporation, Partnership, LLC, or Sole Proprietorship, it may not be as limiting as it seems. For these non-"C" Corp businesses, the Section 179 deduction can be used to offset both business and non-business income.

And if you're married filing jointly, the Section 179 deduction can offset your spouse's income, including W-2 income.

Example: You start a new business in 2003 that ends up with a loss for the year of \$5,000 (before taking the Section 179 deduction). Your spouse has W-2 income of \$60,000. Even though your business is unprofitable, you can still take the full Section 179 deduction of \$5,000 (again, assuming your business is an entity other than a "C" Corporation).

(Be sure to consult with your tax professional to get the scoop on all the Section 179 rules.)

Now that you're done celebrating Memorial Day, be sure to take advantage of this new loophole. A very nice deduction just got expanded to monstrous proportions!

Take advantage of it.

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Wayne M. Davies is author of the new eBook, "The Tax Reduction Toolkit: 29 Little-Known Legal Loopholes That Will Reduce Your Taxes By Thousands (For Small Business Owners and Self-Employed People Only!) Don't file another tax return until you visit:

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