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Main Street Financing Challenges

Leasing Equipment and IRS Section 179 Deductions

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I recently posted a blog about the [increased tax deductions](#) being offered for businesses that purchase equipment and use accelerated depreciation rules under Section 179 of the IRS code. I stated that leased equipment would not qualify under the IRS rules. Shortly after I posted the blog a reader wrote to me about the issue of leased equipment and Section 179.

After reading my blog, Glenn Spiller, president of New York City area-based leasing company [Yooj Solutions, Inc.](#) ("Bronx lingo for HUGE) wrote an e-mail clarifying that some kinds of leases do qualify for the section 179 deduction.

It turns out there are several kinds of leases and financing methods offered by leasing companies. According to Mr. Spiller, only capital leases qualify for the Section 179 deduction.

Mr. Spiller stated that the majority of leases that his company writes are "capital" leases. The most common type of capital lease is called a "dollar" buyout lease. A second kind of capital lease is a 10 percent Purchase Upon Termination (PUT) lease. The key feature that makes this kind of lease eligible for the section 179 deduction is there is an agreement to purchase the equipment upon lease termination,

Title to the equipment remains in the name of the leasing company until the property is purchased upon termination by the lessee.

The Yooj Solutions Web site has a very [helpful calculator](#) that allows you to see the tax savings you can realize under the Section 179 deductions by tax bracket by simply inputting the cost of the equipment.

In order to realize benefits of the Section 179 increased deduction, the equipment must be put into service before the end of 2009, since Congress has set the expiration of the increased deduction for December 31, 2009. The idea is to stimulate businesses to make large equipment purchases this year and thereby benefit the overall economy.

According to Mr. Spiller, "The real benefit to companies taking the Section 179 deduction is the bonus deduction. Under Section 179, businesses that spend less than \$800,000 a year on equipment or property can write off up to \$250,000 in 2009. The Economic Recovery Package of 2009 includes bonus depreciation of 50 percent (above \$250,000). This bonus is in addition to regular first-year depreciation. The rules are designed for small businesses so the \$250,000 deduction begins to phase out companies that purchase more than \$800,000 in a year."

One reader wrote to me after my Monday blog and asked if software is included in eligible Section 179 deductions. According to the [IRS Web site](#), in addition to tangible business property, off-the-shelf software that is available for general purchase and is not substantially modified is covered.

As always, consult your CPA for the most current accurate tax advice.

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