



E-Mail Newsletter

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**Stretch Your
Business
Investment!**

**Software Allowed
for the First time!**

**Equipment must
be in place by
January 1, 2005.**

“Jobs and Growth Tax Relief Reconciliation Act of 2003”

DOSS Business Systems is not a tax advisor but is spreading the word about the opportunities and benefits this Act includes. In the right circumstances, it can have a significant impact on your tax liability and stretch your business investment dollar further thus providing an incentive to speed up planned product purchase and/or upgrades to existing technology.

The **2003 Jobs and Growth Tax Relief Reconciliation Act** added a tax benefit (through greater depreciation – an additional 50% in the first year) for purchasing and placing in service certain business assets, including telecommunications, computer and related property and software for internal use, prior to January 1, 2005.

Since telecommunications, computer and related products are qualified equipments under the tax regulations, you should be able to reduce federal current tax liabilities (or cash savings) from the additional equipment purchases made during 2004, provided you are able to offset the current year or prior two years' taxable income by the additional depreciation. To qualify for the bonus depreciation, the equipment must be placed in service before January 1, 2005.

Background/General Rule

The bonus depreciation provision was originally enacted in 2001; it allowed an additional 30% first year depreciation for properties acquired after September 10, 2001 and before January 1, 2005. **The Tax Act of 2003** added a separate bonus depreciation provision for properties acquired after May 5, 2003 and before January 1, 2005.

The 2003 Act allows an additional 50% first year depreciation for qualified properties. Qualified properties include (1) office computer and equipments, and furniture and fixtures (2) computer software for internal use (3) qualified leasehold improvements. If properties qualify for both 30% and 50% provisions, companies may elect either to apply the 30% or 50% bonus depreciation.

If you are in a taxable income position, the bonus depreciation will provide a current federal cash tax benefit. The additional depreciation will reduce the taxable income and thereby the tax liabilities.

If you are in a taxable loss (or "NOL") position, there will be no current federal cash tax benefit if the NOL cannot be carried back to two previous years. Instead, the cash benefit will be obtained over time as the NOLs are utilized in the next 20 years. If you are able to carry back the NOLs to the prior years to offset prior year income, then the additional depreciation will provide a current cash tax benefit to the company.

**Tax Deductions
Could Stimulate
Technology
Spending!**

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Note that most states have not adopted the federal bonus depreciation provision. Therefore the bonus depreciation will not generate any state current tax benefit.

Illustration of Potential Benefits

Excerpted from Lyn Berry-Helmlinger, "Tax breaks could boost tech spending," Denver Business Journal, April 2, 2004.

Business-friendly tax deductions could stimulate technology spending. President Bush signed the **Jobs and Growth Tax Relief Reconciliation Act of 2003**, a \$330 billion, 10-year tax cut plan, into law last May. It contains generous incentives for business investment that are especially helpful to small and medium-sized companies. In its Section 179, the law allows companies to write off \$100,000 in purchases, which quadrupled the 2002 limit of \$25,000. The phase-out limit also has increased, from \$200,000 to \$400,000.

Deductions can be taken on new technology, machinery, equipment, telecommunications infrastructure, transportation equipment, furniture, and, for the first time, computer software. The deduction is good through Dec. 31, 2005.

Additionally, the updated law nearly doubled the first-year bonus depreciation. This deduction increased from 30 percent to 50 percent for investments acquired and placed in service after May 5, 2003, and before Jan. 1, 2005.

To maximize the deductions, businesses can write off the first \$100,000 of used assets and assets with longer depreciable lives, and then take bonus depreciation on new purchases. The tax relief law will help increase tech sales in the small business sector. This segment has postponed technology purchases due to an enormous investment during the internet boom and concerns over Y2K readiness. "Gartner is projecting that IT spending at the national level, led by hardware, will increase by 5 percent in 2004. According to weekly Gartner surveys of IT buyers across all segments, companies are indicating they'll spend over their budget this quarter -- the first time since the recession began.

Calculation and Comparison Example

Company **A** purchased office equipment for \$100,000. The equipment is a 5-year MACRS property.

Regular Depreciation (w/o Bonus Depreciation):

Total Depreciation: $\$100,000 \times 1/5 = \$20,000$ [A]

Bonus Depreciation [B]:

Bonus Depreciation: $\$100,000 \times 50\% = \$50,000$

Regular Depreciation: $(\$100,000 - \$50,000) \times 1/5 = \$10,000$

Total Depreciation: $\$60,000$ [B]

Additional Depreciation: $\$40,000$ [B] - [A]

NOTE

DOSS Business Systems is not positioned as a tax advisor to its customers. Consequently, we will refrain from discussing detailed tax saving strategies with our customers, as the tax situation for each customer may be different.