

# Congress and the IRS

How they are giving a helping hand to you and your carwash in 2011.

BY TOM DUFFY | CONTRIBUTING WRITER



There are only a few months left to take advantage of some rather generous tax provisions which were included in the 2010 Small Business Act passed by Congress in late 2010.

## Deductions and write-offs

One of the provisions, known as the Section 179 deduction, includes the ability to fully write-off up to \$500,000 of qualifying property purchased in 2011. The \$500,000 limit is reduced (dollar for dollar) to the extent the taxpayer purchases property in excess of \$2,000,000.

Under the Section 179 provision you can fully expense tangible property that is acquired by purchase from an unrelated party for use in your business. Generally speaking, property other than buildings and land qualifies with some minor exceptions. Especially note what may be the most advantageous part of the 179 provision, that is, the ability to immediately deduct up to \$250,000 for the cost incurred to make improvements to qualified real property. In general, this is any non-structural improvement to an interior part of a

building which you lease.

In another provision, Congress is allowing taxpayers to deduct 100 percent of qualified assets placed in service under a provision known as "Bonus depreciation." These are the most generous provisions that this author has seen in his lifetime. Congress has authorized these provisions in order to stimulate the economy. It is their hope that business owners will go out and purchase new equipment and in turn act as a catalyst for our sputtering economy. So what exactly can you purchase and fully expense under these provisions?

Bonus depreciation on the other hand is very similar to the Section 179 deduction in terms of the property that qualifies for expensing. A benefit of Bonus depreciation over Section 179 is that there is no limit to the amount of property that one can expense under the 100% Bonus depreciation provision. In order to qualify for a Section 179 deduction, total taxable income must meet or exceed the amount of the Section 179 deduction. That is not the case for Bonus depreciation. A company can operate at a loss and still be able to fully

expense items under the Bonus depreciation provision. This is a very important advantage of Bonus depreciation over Section 179 depreciation, especially for car wash companies who usually operate at a loss in their initial year of operations.

## A major planning opportunity

Although not specifically applicable to the carwash industry, I would be remiss if I did not inform you of a major planning opportunity in the 2010 Small Business Act that can afford you some amazing benefits. For many years, business owners purchased SUVs, minivans or large trucks and fully expensed them under the Section 179 provision. Congress and the IRS caught wind of this and Congress subsequently shut down this option. Today the maximum one can expense for the purchase of an SUV or large truck under the Section 179 provision is \$25,000. However, a spectacular planning opportunity in the 2010 Small Business Act allows you to deduct 100 percent of the purchase price of a new SUV, large truck, or minivan under the Bonus depreciation provision, if the loaded gross vehicle weight

of the vehicles is in excess of 6,000 pounds. I recently was able to use this provision of the Small Business Act to help a client purchase a \$70,000 plus luxury auto and take a full write-off. Of course, any personal use of the auto will need to be calculated at year-end and included in income.

## Confused? Read this example

Is all of this technical tax talk a little overwhelming? Perhaps a quick example will help.

Jim runs multiple carwashes located in the United States. He is in his 10th year of operation and has decided that it is time not only for new IT equipment but also for a major upgrade to the bays. He also decides to redecorate the office he currently leases. Jim employs approximately five people in the office space he leases and feels as though it certainly would be nice to knock down a few walls and add a few more work areas for his employees. He also decides to purchase a few kitchen appliances and upgrade

the office furniture. Finally, with the soon expiring provision of the Bonus depreciation deduction, Jim decides to splurge and purchases a luxury 2011 Mercedes G-55 to be used in the business.

The breakdown of Jim's costs is as follows:

IT equipment and major equipment upgrade:.....	\$100,000
Redecorating costs/new work areas:.....	\$15,000
Kitchen appliances/new furniture: .....	\$10,000
2011 Mercedes G-55 (GVW > 6000 lbs):.....	+\$120,000

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**Total costs..... \$245,000**

Assuming Jim properly utilizes the Section 179 and Bonus depreciation provisions, he will be able to fully deduct the costs of all of the above items.

- He will be able to fully deduct the \$15,000 in redecorating costs under the Section 179 provision as qualified leasehold

improvements.

- The Mercedes G-55 will be fully depreciated under the Bonus depreciation provision.

- Depending on Jim's 2011 taxable income and his choice of entity, he will deduct the remaining \$110,000 of IT equipment/major upgrades and appliances/furniture under either the Section 179 or Bonus depreciation provisions.

If Jim does not avail himself of these provisions, he will only be able to recognize a current year depreciation expense of approximately \$40,000. This is a difference of over \$200,000.

If you are planning on major purchases or upgrades, 2011 is the year to buy. It is not very often that Congress serves up these types of generous depreciation provisions. One of the largest and most painful costs to your carwash business is taxes. With careful tax planning you can, and should, avail yourself of these unique opportunities to drastically reduce your tax bill. **PC&D**