

# Depreciation Strategy

## MAXIMIZE YOUR DEDUCTION FOR ASSETS



Depreciation is a simple accounting concept, but it can be complicated when trying to obtain the best results for taxes. The concept is to take something that has an economic life, and spread that cost over time. Congress has used the tax code to incentivize the purchase of assets by offering various options to accelerate the tax deduction for those items.

For instance, the Bonus Depreciation currently (2020) allows for a 100% deduction of an unlimited amount of qualified assets. So if you buy a million dollar piece of eligible equipment you can write the whole amount off during the current tax year. But is that the smart thing to do?

In a growing business, often there are substantial purchases of depreciable assets, and it is tempting to get that huge write off now. In fact, most tax advisors just assume that business owners want to deduct everything possible now. But what happens when the business levels out and there are no more assets to purchase to offset income? You guessed it, a big fat tax bill.

Remember, the US tax code is progressive in nature, meaning the more money you make, the higher the tax rate. So in the above case, not only is the business owner not used to paying tax, now they are in a much higher tax bracket.

When advising our clients, we perform multiple what-if scenarios to show business owners the effect over multiple years of their depreciation decisions. By doing this, we make sure that there are no surprises and that the business owner is obtaining the best tax efficiency (lowest tax) over time.

## ACTION ITEMS AND NEXT STEPS



- Require your tax advisor to give you ALL of your depreciation options BEFORE you make large asset purchases.
- Consider alternative financing arrangements like leasing to maximize tax efficiency and match with cash flow.
- It is generally better to pay tax later instead of now, but make sure you have a clear picture of your taxes over the next 3 years to ensure there are no surprises.