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## ***Economic Stimulus of 2008: What it means for Businesses***



Economic stimulus rebate checks have been a main focus in the news recently – focusing on when and how taxpayers will receive their money. However, the Economic Stimulus Act of 2008 also included some significant incentives for businesses. These incentives take form in greatly accelerated depreciation write-offs so that businesses will continue to acquire necessary capital equipment to help operate their organizations more efficiently.

In a nutshell, the promise behind the Economic Stimulus Act of 2008 is to rebate tax money back to the consumer who would then use this money to buy goods

and services. To keep up with this demand, businesses would then need to produce more of their commodities. This was designed to help keep the U.S. economy from falling too deep into a recession. However, it will be several months before we know whether this legislation will work.

In the past, we have talked about types of leases and why use one type over another. We have also talked about differences in interest rates and why it is important to understand how they determine lease rates. In this newsletter, we will show how best to take advantage of the business incentives set forth in the Economic Stimulus Act of 2008 and still use leasing to your advantage.

### ***The Plan: Business Incentives***

The two major provisions of the Economic Stimulus Act of 2008 outlined specifically for businesses include increased IRS Section 179 depreciation limits, and a temporary bonus depreciation incentive. The intent is to help stimulate capital investment by allowing companies to deduct depreciation expenses at a much faster rate than previously allowed.

### **Enhanced Expensing – IRS Section 179**

IRS Section 179 deduction election is enhanced to allow a higher limit of qualified section 179 property placed in service in 2008. The new limit is \$250,000 with the threshold for limiting section 179 deductions also raised to \$800,000. In particular, as long as the total cost of all equipment purchased is less than \$800,000, then a company may elect to write-off a total of \$250,000 as a depreciation expense.

### **Temporary Bonus Depreciation**

The new law also allows an additional deduction of 50% of the property's depreciable basis for certain property. Property that qualifies for this special depreciation allowance includes:

1. Property eligible for depreciation under the modified accelerated cost recovery system (MACRS) with a depreciation period of 20 years or less;
2. Water utility property;
3. Off-the-shelf computer software;
4. Qualified leasehold improvement property.

Additionally, businesses must have acquired the property (and placed in service) after 2007 and before 2009.

### ***Economic Stimulus and its Affect on Leases***

Many times we get questions from customers and referral partners about whether leases can affect a company's ability to take advantage of these new laws. Our answer is, "it depends on the type of lease." We have discussed different types of leases in the past. A more thorough discussion with respect to lease types can be found at <http://www.dynamicfundinginc.com/downloads.html> -- select the downloadable document titled *Lease Basics – an Overview*. Briefly, if a lease is an operating lease, also known as a fair market value (FMV) lease, and qualifies as a "true lease," then a company is not eligible to take advantages of the economic stimulus provisions because the business never takes title to the equipment and is allowed to fully deduct the lease payment over the life of the lease. This type of lease is essentially a rental agreement.

On the other hand, capital leases are essentially purchase agreements and the equipment acquired can be placed into the company's asset base, allowing for the economic stimulus provisions to fully apply.

Can a lease be considered an FMV lease yet still qualify as a capital lease? The answer is most definitely yes. Businesses using FMV leases that qualify as a capital lease can still take advantage of the economic stimulus provisions and lower their monthly lease payments. The following examples will clarify how this can be done:

### **An Example**

Consider the following example comparing a cash purchase to a lease:

<b>Equipment Cost</b>	<b>\$300,000</b>		
Tax Rate	30%		
Lease Term	5 Years		
Monthly Lease Payment	\$6,131		
<b><u>Cash Purchase</u></b>		<b><u>Lease with \$1 Buy-out</u></b>	
Equipment Cost	\$300,000	Lease Payments (Year 1)	\$73,572
IRS Section 179 Depreciation Allowance	\$250,000	IRS Section 179 Depreciation Allowance	\$250,000
MACRS Depreciation with Bonus	\$30,000	MACRS Depreciation with Bonus	\$30,000
<b>Total Depreciation</b>	<b>\$280,000</b>	<b>Total Depreciation</b>	<b>\$280,000</b>
After-Tax Depreciation Benefit = Total Depreciation X Tax Rate	\$84,000	After-Tax Depreciation Benefit = Total Depreciation X Tax Rate	\$84,000
<b>After-Tax Cost of Equipment = Equipment Cost less After-Tax Depreciation Benefit</b>	<b>\$216,000</b>	<b>After-Tax Cost of Equipment = Lease Payments (Year 1) less After-Tax Depreciation Benefit</b>	<b>(\$10,428)</b>

Comparing the two options for acquisition, the lease actually saves money after year one. Clearly, this would greatly enhance a company's cash flow situation.

Dynamic Funding has invested in tools to help analyze the benefits of leases versus a cash purchase or bank loan. Integrated into these tools are the rules for taking depreciation deductions specific to the government's economic stimulus package. We use these tools to help companies objectively make the right choice for acquiring new equipment.

### **Customer Success**

#### **Krueger Enterprises**

Family owned and operated, Krueger Enterprises has been in business for over 38 years in Grimes, Iowa, and operates several convenience stores throughout the state. Like most medium-sized businesses, Krueger Enterprises was looking for ways to reduce operating expenses -- particularly energy costs.

Energy Conservation Products ([www.energyconservationproducts.net](http://www.energyconservationproducts.net)) is a manufacturer's representative company that provides energy-related products designed to help customers operate their machinery more efficiently. The company proposed a system to Krueger Enterprises that included the Utiliguard Power Quality System. These energy management products help protect the entire electrical system from the effect of damaging surges and harmful harmonic



distortion that destroy and greatly shorten the life of valuable electrical equipment. After Energy Conservation Products recommended that Krueger Enterprises consider leasing, Dynamic Funding Inc (DFI) was contacted to move forward.

DFI worked with the management team at Krueger Enterprises to understand their business. Based on the company's situation, DFI proposed a lease arrangement that helped them better manage their cash flow needs in a way that allows them to take full advantage of the guaranteed energy savings provided by the Utiliguard system. The combination of the guaranteed energy savings and low lease payments allowed Krueger Enterprises to gain an immediate payback on their installation.

#### **Kent Elbert Farm**

Kent Elbert is an independent farmer located in Whittemore, Iowa, operating the family's farm that has been in operation for the last 34 years. The farm's machinery is in constant use and is responsible for a large portion of its energy usage. Aware of this issue, Elbert needed a way to reduce his energy usage and operate his farm more efficiently.

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proposed a system to Elbert – the Utiliguard Power Quality System – that would help protect the entire electrical system from the effect of damaging surges and harmful harmonic distortion that destroy and greatly shorten the life of valuable electrical equipment. Energy Conservation Products recommended that Kent Elbert consider leasing and contacted Dynamic Funding, Inc. (DFI) to move forward.

Because Elbert is an independent farmer operating as a sole proprietorship, this presented a variety of challenges to DFI. Overcoming these issues, DFI designed a lease program that fit the needs of Elbert's farm business. DFI provided a lease structure that met Elbert's cash flow needs and installed the Utiliguard equipment necessary to help him run more efficiently.

### Event Hospitality Network

A sister company of Dynamic Funding, Inc is **Event Hospitality Network (EHN)**. **EHN** provides a premium multimedia entertainment and information experience for hospitality areas of PGA TOUR events. As an **officially licensed program** of the PGA TOUR, **EHN** elevates the presentation of PGA TOUR events and provides tournaments with several benefits including:



- Enhanced hospitality experience for key suite sponsors and their guests
- Increased on-site exposure for the title sponsor
- Improved sponsor satisfaction and renewal rates
- Opportunity to increase the profit on each hospitality suite sold

The exclusive **EHN** multimedia program is specifically tailored for each tournament, with customized advertising and content programming to target individual sponsors and hospitality suites. The **EHN** multimedia package includes several 42-inch flat-panel plasma displays (delivering customized video and data programming during the entire tournament) and touch-screen interactive kiosks (delivering the latest tournament news, current leader board information, player location, present and past event highlights, various statistics, as well as other related information).

Additional information can be found at the **EHN** website: [www.ehngolf.com](http://www.ehngolf.com).