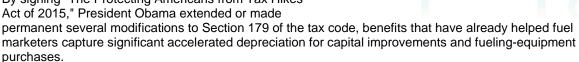
## Opinion: Getting the Most from New Tax Advantages What the tax-extender bill means for convenience-store owners

Published in *CSP Daily News*By Chris Santy, President, Patriot Capital

ATLANTA -- Just before Christmas, President Barack Obama and the Senate approved legislation that provides convenience-store owners and other small businesses several significant tax benefits. This legislation enables those purchasing new or used capital equipment, making site improvements or pumping alternative fuels to capture benefits.

By signing "The Protecting Americans from Tax Hikes Act of 2015." President Obama extended or made.



Let's take a look at what that means to c-store retailers.

## What are Section 179 and Bonus Depreciation?

Section 179 is a portion of the federal tax code that allows small businesses to accelerate the depreciation of their capital and equipment spending (and even some business software) into the current tax year. Though the credit was historically \$25,000, Congress, in a bid to expedite America's recovery from the recession, increased it temporarily to \$500,000 in 2010 (with similar temporary annual renewals through 2014).

This is a true "small business" incentive, applying to businesses with annual capital spending below \$2.5 million. There are two parts to the provision:

- Same-year deduction of up to \$500,000: For capital spending of up to \$500,000 on either new or used equipment, 100% of the investment may be deducted in the current year.
- "Bonus" depreciation: For spending on new equipment between \$500,000 and \$2 million, 50% of the capital spend can be deducted in the current year. For spending between \$2 million and \$2.5 million, the amount of the bonus depreciation is reduced proportionately.

Here's an example that can help illustrate the impact of the Section 179 for a typical fuel marketer:

Cost of Equipment 1st Year Tax Deductions	\$600,000 Traditional	\$600,000 Section 179
- 100% of first \$500K		\$500,000
- Bonus Depreciation - 50% to \$2M		\$50,000
- Normal 1st Yr Depreciation**	<u>\$85,714</u>	<u>\$7,145</u>
TOTAL Year 1 Deductions	\$85,714	\$557,145
Marginal Tax Rate of 35% (Assumed)	\$30,000	<u>\$195,000</u>
NET FIRST YEAR COST AFTER TAX:	\$570,000	\$404,999

With \$600,000 of eligible capital expenditures in a year, your business may usually depreciate assets over seven years. This would result in a tax deduction of \$85,714 (\$600,000/7 years). With Section 179, the business can fully deduct the first \$500,000 plus 50% of the next \$100,000. This \$550,000 deduction leaves the book value of the asset at \$50,000 (\$600,000 - \$500,000 - \$50,000). This \$50,000 can then be deducted over the seven-year asset life, providing an additional \$7,145 deduction.

These deductions total \$557,145, providing \$195,000 is tax savings in the first year. Capturing 93% of the available depreciation in the first year is a strong incentive to accelerate the purchase of new equipment, especially in an environment where technicians will be in short supply during the EMV upgrade cycle.

## What's Changed (or, Not Changed)?

In the Protecting Americans from Tax Hikes Act of 2015 (PATH Act), Congress has locked in the \$500,000 maximum deduction, and has extended the 5% bonus depreciation provision through 2019. Additionally, the annual maximums will be indexed to inflation.

Some of the ways you can utilize the 2015 Section 179 renewal include:

- EMV equipment upgrades, including EMV pumps, EMV retrofit kits and point of sale upgrades
- In-store equipment such as beer caves or fixtures
- Energy-efficiency improvements, including LED lighting and HVAC equipment
- If you lease, rather than own, your building, you can even deduct limited structural changes, things like interior walls and doors, under the new Section 179 provisions.

## Alternative Fuel Infrastructure Tax Credit

This incentive, extended through December 2016, enables a 30% tax credit for eligible alternative-fueling equipment. A tax credit is a straight deduction from taxes owed and therefore of significantly higher value than a tax deduction. For example, if a retailer installed \$100,000 of eligible E-85 pumps, he would be able to deduct \$30,000 from his current-year tax bill.

Eligible fuels under this credit include E85, propane, biodiesel (20% minimum) and liquefied hydrogen. Credits may also be carried backward one year and forward 20 years. Further information is available at this government website: http://www.afdc.energy.gov/fuels/laws/NG/US.

Section 179, bonus depreciation and the alternative-fuel-infrastructure tax credit are just one element of a broader approach to equipment purchasing that allows retailers to maximize their business profitability. Leveraging the value of the equipment in a low-cost equipment financing transaction—like that which is facilitated by Patriot Capital—can help to further align cash flows with the purchased equipment, in a term of up to five years.

Of course, there are myriad variables in any financial situation. We recommend consulting with your tax professional to ensure that you are maximizing the available tax benefits from 2015's Section 179 and the above-mentioned benefits.

Chris Santy is president of Patriot Capital. Reach him at csanty @patriotcapital.com.