

Financing Options on a \$300k Investment

Lease Type ►	Year 1		Years 2-5		Totals (5 years)	
	Operating	Capital	Operating	Capital	Operating	Capital
Payments	\$54,000	\$69,588	\$54,000	\$69,588	\$270,000	\$347,000
Sec. 179 Write Off	N/A	\$250,000	N/A	\$0	N/A	\$250,000
Bonus Depreciation	N/A	\$25,000	N/A	\$0	N/A	\$25,000
Std Depreciation	N/A	\$3,571	N/A	\$3,571	N/A	\$17,857
Total Deduction	\$54,000	\$278,571	\$54,000	\$3,571	\$270,000	\$292,857
Tax Savings (assuming 35% bracket)	\$18,900	\$97,500	\$18,900	\$1,250	\$94,500	\$102,500
Net Cost/(Benefit)	\$35,100	(\$27,912)	\$31,571	\$70,851	\$175,000	\$242,500

At the end of five years, you own the machine with the capital lease, but it's cost you almost \$70,000 more than an operating lease. (Note: Although not shown here, standard depreciation would last another two years, bringing the total deduction to \$300k for a tax savings of \$105,000)



INFO

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Financing

Unlocking machine tool financing

What's available, where to get it, and how

Although many financial institutions have lost billions since 2007, *there is financing available* for machine tool investments, interest rates are low, and the federal government is offering *accelerated tax savings* until December 31st, 2009. That makes this an excellent time to invest.

Option 1: Keep your payments low and plan for obsolescence with an operating lease

An operating lease (aka rental or tax lease) keeps the transaction off the balance sheet and is reported as an operating expense on the P & L statement. Your monthly payment will be 25-30% lower than a traditional lease, although you won't own the equipment at the end of the term. At that point you can upgrade to a newer machine or arrange a buy-out at Fair Market Value. Given the speed with which tool grinding technology advances, the operating lease deserves serious consideration.

Option 2: Lease it to own it

A capital lease or loan is recorded as an asset and liability on the balance sheet, and depreciation taken annually on the P & L. Variations such as balloon

payments and skip payments *are available*. Plus the American Recovery and Reinvestment Act of 2009 provides accelerated depreciation and higher deductions:

- **Section 179** allows you to depreciate the first \$250,000 you invest in capital equipment in 2009. (This applies to companies that buy or lease up to \$800,000 in 2009. The write-off phases out for investments between \$800,000 and \$1,050,000.)
- **EXTRA first year depreciation of 50%! Depreciate 50% of the net investment (after the Section 179 reduction) in the first year and still take the standard depreciation over the life of the machine!** (Machine tools are typically depreciated over seven years.)

Over for more 



Examples of 2009 Tax Savings

Purchase Price	\$200,000	\$300,000	\$400,000
Sec. 179 Write Off	\$200,000	\$250,000	\$250,000
Bonus Depreciation	\$0	\$25,000	\$75,000
Std. Depreciation	\$0	\$3,571	\$10,714
Total 1st Year Depreciation	\$200,000	\$278,571	\$335,714
Tax Savings (assuming 35% bracket)	\$70,000	\$97,500	\$117,500
Net Cost in 1st Year	\$130,000	\$202,500	\$282,500

Funding sources

There are a number of ways to finance various aspects of your business, including loans from your local bank, Small Business Administration (SBA) loans, and programs sponsored by your local or state governments. However, these sources generally do not understand specialized machinery. A machine tool finance company can cover up to 100% of the of the transaction cost, including freight and taxes. So in general, it's best to finance your machine tool investments with a company that specializes in that field, while using your local bank and similar sources to provide a line of credit for more routine expenses.

What do lenders look at?

There has been no change in credit standards and availability for mature firms. And at least one company (The Machine Tool Finance Group of U.S. Bank Equipment Finance) will evaluate a machine tool investment up to \$350k on an "application only" – meaning financial statements are not required.



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Here are some of the *key criteria lenders use*:

- At least 3 years in business
- Good personal credit history (a strong indication of how an owner operates his business). Home owner, with prior or present history of on time mortgage payments
- “Revolving” credit lines such as credit card, home equity loans, or business lines of credit, with some currently untapped
- Favorable Dunn & Bradstreet Paydex score demonstrating a history of prompt payments
- History of comparable loans and good payment history, verified by UCC filings or Paynet report
- Traditional bank loans do not always show up in the computerized credit check, therefore the owner may be asked for such information if the other sources are not sufficient

Credit reviews typically *do not* consider business plans for generating new revenue with the new equipment. The lender usually wants assurance the company has enough cash flow and profit from present operations to pay the new loan obligations.

For start-ups, the finance company will probably require a down payment of roughly 50% plus evidence that the firm has twelve months of working capital.

Want to know more?

Call us at (540) 898-3700, Ext 2

We have several financing partners and will be happy to assist you in the process of justifying and obtaining financing for new investments. However, you should consult your tax advisor for specific guidance in that area. The information on this sheet is for informational purposes only and is not to be construed as tax advice.

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