Quick, Buy That Mower!

Thanks to recent tax breaks, there's never been a better time to purchase new equipment. Just don't wait till Jan. 1

BY JOHN McPHEE

Special deduction and depreciation are valuable incentives for golf courses to add or upgrade mowers and other equipment.

According to that old saying, the only unavoidable things in life are death and taxes. However, most of us still like to put them off whenever we can.

Fortunately for golf course owners and superintendents, the government is now trying to help with the taxes part. The Jobs & Growth Tax Relief Reconciliation Act of 2003 (Public Law 108-27) was created to provide larger tax deductions for small businesses that invest in new equipment. By making it easier and more attractive for businesses to purchase needed items, the program is intended to increase demand for manufacturing and distribution. That in turn helps stimulate the general economy. Everybody wins.

Specifically, Section 179 of the law allows golf courses to deduct up to $100,000 of qualifying equipment investments as a direct expense. (Previously it was a $25,000 deduction limit.)

It gets better. In addition to the actual dollar amount, which can be written off this year, the revised tax law includes a "bonus depreciation." That means qualifying equipment is also allowed a first-year depreciation of 50 percent (raised from 30 percent) of its adjusted basis.

This tax reform is especially useful for many golf courses. Being tied directly to equipment acquisition, the special deduction and depreciation are valuable incentives to add or upgrade your mowers, aerators, and utility vehicles if you act now.

To qualify for the tax breaks, any machinery you obtain must be:

- new equipment;
- placed in service before Jan. 1, 2005;

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- not part of a binding contract prior to May 6, 2003; and
- MACRS-eligible (Modified Accelerated Cost Recovery System) with a recovery period of less than 20 years.

The rules apply only to golf courses operating on a for-profit basis, not municipal facilities, provided net income is equal to or greater than the deduction.

All of this accounting language may sound complicated, but it's easy to see the huge financial rewards when put into simpler terms.

If you're thinking of buying new equipment, either now or in 2005, you should take advantage of the reformed law.

For instance, suppose someone has a small business, and he buys new laptops for $5,000. Then he expenses that purchase on his taxes and writes off the entire $5,000 this year. If his company had $5,000 of profit before factoring in that transaction and he deducts the $5,000 laptops, he would now show zero profit in terms of tax liability.

When you're looking down your income statement from the tax book standpoint, you always want to reduce your net earnings, and qualifying business purchases allow you to do that. So if you're in a 34-percent tax bracket, every dollar reduced from your tax liability will save 34 cents out of a check you'd write the IRS.

Therefore, if you were to purchase $100,000 of new equipment, you'd reduce your tax liability by $34,000. That's quite a difference.

Perfect time

This money-saving opportunity makes good business sense, and the timing can work in your favor.

Fall is the time of year many superintendents begin assessing their equipment inventory and planning their needs for next year. If you're thinking of buying new equipment, either now or in 2005, you should take advantage of the reformed law. Regardless of how you have traditionally obtained your machinery — lease, cash purchase, financing — there are ways in which the new rules can help make your money go further.

But what if it's not in your course's budget to buy more equipment in the 2004 calendar year? That shouldn't stop you. Your equipment distributor can help you finance the purchase transaction and set it up with skipped payments or a no-payment-until-next-year plan. So you'd virtually have no cash out of pocket now and you would still receive the tax benefits.

The significant advantages of the new tax law, combined with historically low interest rates, present the best time to implement a viable acquisition strategy.

In addition, financing through a conditional sales contract allows you to qualify for the enhanced tax benefits.

Everybody wins

Although the new law represents tremendous monetary benefits, it may still be a tough sell job for some golf courses, particularly if the financial people don't want to change their acquisition plans.

On the other hand, this is a chance for superintendents to work with the number crunchers and develop mutually beneficial strategies. The key is to make sure the finance people are aware of this new tax situation — then demonstrate how it specifically affects your golf course and promotes ownership's goals of quality and professionalism.

Superintendents can use their agronomic and operational expertise to clearly explain the need for specific pieces of equipment. Chances are the financial people will be impressed with their business logic. Most people would rather defer their tax liability for as long as they possibly can. The longer they defer it, the more money that stays in the cash account.

Irrigation components may also qualify under this program. As long the irrigation equipment meets a golf course's requirements as a capitalized asset and is installed by Jan. 1, you can take advantage of these benefits. Before, irrigation systems were depreciated up to 10 years. Now, you can depreciate a full 50 percent in the first year alone.

Most of us don't need another deadline, but this is understandably a good one. If you're thinking about acquiring new equipment, seriously consider doing it before Jan. 1. Consult your accounting professionals about the specifics for your situation, and work with your equipment distributor on an acquisition plan and flexible financing options. In any case, the time is now. Your course — and its bottom line — could look a lot better next April 15. ■

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