

Equipment Rental Program

Offsetting High Taxable Income and Capital Gains Taxes while Generating Significant Monthly Cash Flow

HOW DOES IT WORK??



The Challenge

The Solution

High income earners concerned about the income taxes they pay are sometimes in the position of being "asset rich" and "cash poor." How can they effectively reduce the amount they pay in taxes?



Solution

Taking advantage of a customized business approach and using only a portion of the taxes that would be lost to the IRS, these funds can be leveraged to capture significant tax and income benefits. Customized to the client's needs, they can form their own rental company, usually a Limited Liability Company (LLC) to buy and rent commercial grade equipment.

Tax Law

Originally adopted in 1958, Section 179 of the U.S. Internal Revenue Code allows businesses to take an immediate deduction for business expenses related to depreciable assets such as business equipment. Bonus depreciation is also currently available.

Benefits

Accelerated depreciation on the equipment can be used to reduce or eliminate federal and/or state income tax liability on a personal level. This can also be used to help offset capital gains tax.

Case Example

A high-income earner has a taxable income of \$1 million with federal and state income taxes of \$503,000. His LLC invests \$125,000 as a down payment to purchase \$1.25 million of commercial equipment to rent.

His CPA elected to use the available bonus depreciation on the equipment to reduce his client's personal taxable income to ZERO and save the \$503,000 in federal and state income taxes. In addition, his LLC receives positive cash flow from the rented equipment.

Business Model Highlights

- On behalf of the LLC, commercial equipment is identified for purchase by a third-party specialist in that field.
- Between 80 to 90% of the equipment purchase price upon approval may be financed through existing third-party lending sources.
- Minimum purchase of equipment is \$300,000 with a 10% or 20% down payment depending on approval. For example, a \$30,000 investment can purchase \$300,000 of equipment for depreciation.
- On behalf of client's LLC, the third-party equipment specialist rents the equipment to the end users.
- The LLC is paid monthly rental income through the specialist's equipment revenue sharing platform, projected at an annualized target rate of 18% based on the down-payment/equity of the equipment. The LLC also receives an amount that is equivalent to the monthly principal and interest payment for the equipment loan to pay to the lender.

About TaxWealth

Based in Mission Viejo, CA, TaxWealth is a tax analysis and solutions research company with 35 years experience providing value-added tax planning support to CPAs, attorneys, financial advisors and brokerage professionals to uniquely solve their clients' tax problems.