Why buying equipment is not a good solution to lowering your tax bill

By Adam Underwood, CPA

Over the years during annual tax planning meetings I have had several instances of clients posing the question of if they should buy a piece of equipment to avoid paying taxes. Each situation is different but for the vast majority of businesses it is smarter to pay the taxes than to buy a piece of equipment.

Take this example as a general case study. If you have 100K of taxable income at the end of the year and your tax bracket is 30% then you would have 70K in cash left in the account for whatever purpose you need it for. If you use the 100K to purchase a new piece of equipment (that you don't need) just to avoid taxes, you now have no cash and a piece of equipment that is immediately worth less than 100K that you spent. On top of that you have had to depreciate it out on your books to a zero value to avoid paying tax. In simple terms would you rather have 70K in your hands or a piece of equipment that whether you use it or not is losing value. Cash in the bank does not depreciate like equipment does.

Now think about this situation year over year. If you saved the 70K each year for 10 years you would have 700K in the bank. Is you purchased a piece of equipment each year you would have a lot of equipment losing value and on top of that you have to spend more money to maintain the equipment. In the event of buying equipment to avoid tax you are making yourself cash poor.

This is a specific scenario and should not be considered a blanket approach to all tax situations. Consult your tax professional as to what is the best decision for you.

<u>How we can help:</u>
We work with our clients to achieve the most advantageous results for you business and life. Specializing in plans to help maximize your cash in hand and efficiency in process, to improve not only your bottom line but also your quality of life.