



## FINANCING INCENTIVES

# Good Economic News For Challenging Times

by Mr. David Kemp, Industrial Finance Group, Inc.

### With all the banking problems I read about, is financing readily available for a machine purchase?

Some of our customers are finding that traditional bank financing is less available than in the past. Not only do most bankers not understand production machinery, many are limited by the institutional rules governing lending.

### Are Banks a good lending choice when I want to purchase equipment?

Fabricators adding equipment might want to consider non-bank financing options through financial institutions that understand the value of machinery and are aggressively pursuing new customers by offering a variety of financing products and creative financing structures. These financial institutions offer rates and terms that are often better than traditional bank financing.

### What types of financing are available through these lending institutions? Which is the most popular?

**Installment Loan:** This is a fixed rate loan with terms from 24 months to eighty four months. 100% of the machine price may be financed.

**Lease Purchase:** This is a lease in which all depreciation accrues to the benefit of the end user. The equipment is purchased for one dollar after all payments have been made. The cash up front is typically the first and last payment. This is the most popular type of machinery financing.

**Tax Lease:** A lease that affords a lower monthly payment in exchange for depreciation and a residual payment due after all lease payments have been made. This category of lease may qualify for "off balance sheet" accounting.

### Can you really delay payments up front so I can cover other expenses?

Start up costs is an issue for many fabricators. Facility modifications may delay production, which in turn may place a burden on current cash flow. Financing is available that can delay the start date of monthly payments as long as three months, or that allows a company to pay a reduced payment for as long as six-months.

### Can you give me an example?

**Example:** A machine costing \$300,000 would have a monthly payment of \$2,875.00 for the first six months, then a payment of \$5,750.00 for the next sixty months.

### Is it true that lending rates are the best in years?

This depends on which financial institution you are speaking of. Mortgage rates are at all time lows. Many banks are not willing to lock in a

low fixed rate loan for customers and are pushing floating rates, which may be low for a time but have the potential to increase later. We are in the unique position of offering excellent rates for machinery that are fixed for the entire term.

### Can you give me a payment plan example for a \$300,000 capital equipment purchase?

The typical term for a machinery purchase is five-years however we finance many machines for as long as seven-years. A typical monthly payment would be \$5,923.00 for a five-year term, or \$4,532.00 for a seven-year term. Rates are volatile at this time so customers need to call for the current rate when they are ready to buy.

### I know you can't finance "used equipment" but is financing available for factory remanufactured equipment?

Because Peddinghaus covers their remanufactured equipment with a factory warranty we treat their remanufactured machinery the same as new for financing purposes.

### Is that true that the best time to buy equipment is in a "down economy"?

Adding equipment may make as much sense in a down economy as it does at any time due to the value of increased output and a reduction of labor costs. When we evaluate a company for financing one of the questions we ask is "how will this equipment impact your bottom line"? Peddinghaus machines typically pay their own way by either increasing production, or reducing expenses. **Peddinghaus Answer:** pricing/delivery/terms; decreased installation costs; enhanced training opportunities so you are "ready to run" when things return.

### Can I still make a Section 179 tax deduction for a machine purchase in 2009?

President Obama signed into law the American Recovery and Reinvestment Act of 2009 on February 17, 2009. Among the numerous provisions is an extension of the 50% bonus depreciation for equipment purchases, as well as a \$250,000 179 expense allowance.

A further provision of the bill allows business customers to recoup current losses with a five-year carry back period. Current law provides for a two-year carry back period.

### How long can I depreciate an equipment purchase?

Seven years is the maximum term for production machinery.

### Are there any tax benefits to a longer depreciation term?

A shorter term would afford a greater tax benefit

as the amount of depreciation would be more each year. This could be accomplished with a short term Tax Lease that has a higher monthly payment resulting in more of a write off each year. The benefits must be reconciled with the impact on cash flow and the high residual due after the lease term. We offer this type of lease and will be happy to discuss options with customers.

### We have all heard about the Economic Stimulus Package from President Obama, do you have any details?

The Stimulus package is almost 1000 pages of law and verbiage. The primary benefits to small business owners are an extension of the \$250,000 section 179 expenses and bonus first year depreciation of 50%

#### EXAMPLE:

Machine price	\$300,000
Section 179 expense	(\$250,000)
50% bonus depreciation	(\$25,000)
Standard depreciation	(\$3,572)
Total first year deduction:	\$278,252.00

This could result in considerable tax savings depending on the company's Federal income tax bracket. If a company is in a 25% tax bracket the tax savings could be as high as \$69,573.00. (\$278,252.00 x 25%)

It should be noted that Section 179 expenses may not exceed the company's net income in the year they are utilized; therefore it may be advantageous to take only the 50% bonus depreciation on the entire purchase price. Bonus depreciation and standard depreciation are not subject to the "Net Income" convention. Always consult with you tax advisor prior to making a decision based on tax consequences.

### Under this new program can I apply for a tax refund from a previous year?

The five-year carry back provision of the new bill would allow a company to apply for a refund of income taxes paid in a prior year if the depreciation expense cannot be used in the current year.

### Is infrastructure truly a major part of this plan?

Absolutely; the plan allocates billions of dollars for roads, bridges, renewable energy projects, and other public works projects.

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