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## **Business Management**

# Factors to Consider When Selling Equipment

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Are you loaded with equipment but without new project work? If equipment is projected to be idle and no bids are on the horizon, it may be time to consider sending equipment to auction.

Now is the time to examine the tax treatments of various assets; liquidating your idle assets can make a measurable impact on cash flow. The decision may also involve a bank or financing company, who may dictate conditions. When an asset used for business (and depreciated over time) is sold, the Internal Revenue Service has a provision that restricts the conversion of ordinary income to capital gains by use of depreciation deductions. This is called depreciation recapture. The method a company uses to depreciate its equipment can have an impact on the decision of which assets to sell.

Here's how two of our construction clients with prior years' depreciation elections changed the net cash flow.

### **Case #1**

One of our clients, a general contractor established 15 years ago, and which had excess idle equipment, wished to turn some

equipment into cash. The equipment was purchased in 2003 and 2004 specifically for a non-recurring long-term contract. In 2003, this client bought and placed into service a backhoe for \$150,000 and elected 50 percent Bonus Depreciation (available in 2004). In 2004, the client bought and placed into service a Front



Loader for \$150,000, but did not elect Bonus or Section 179 Depreciation. At auction it was estimated that each unit would net \$42,000. Our client decided to sell one of the assets to increase its cash flow.

If the client decided to sell the backhoe, they would have had an ordinary gain of \$33,360 and a net cash flow of \$32,659. If they decided to sell the Front Loader, this client would have an ordinary gain of \$7,440 and a net cash flow of \$39,917. In this case study, by choosing to sell the newer piece of equipment (the Front Loader) this client realized \$7,258 more in cash flow.

### **Case #2**

Another client had bought the same equipment, except it did not elect to utilize Bonus or Section 179 Depreciation elections for the Backhoe purchased in 2004. However, they did elect to utilize

50 percent Bonus Depreciation for the Front Loader purchased in 2005 (a reversal of what our other client elected to do in case #1).

In this situation, the tax basis of each asset was exactly the

ment and recruitment (which we will examine in a future column) while reassessing their business from top to bottom, securing themselves for more tough times ahead.

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same—even though they were put into service in different years. The net cash flow from the sale of each piece of equipment was \$35,078, allowing our client to decide which piece of equipment to sell.

Companies that are prepared and are willing to make tough decisions can survive and thrive in the future. In this challenging economic time companies need to focus on improving cash flow, investing in professional develop-

Look through the doom and gloom atmosphere for opportunities. The decision to sell equipment, which may be tough to accomplish in this economy, can affect the way you approach future jobs and opportunities. Planning is the key to surviving this economic storm. Analyze your situation, be proactive, and weigh all of the options for your company.

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