

Tax Advantages

Generally, the tax laws allow very favorable depreciation on modular offices and other portable structures. The discussion and sample that follow will give you some insight into the tax advantage of purchasing a modular office or other portable structure. Note: As of the date that this information was gathered, these products qualified for a 7-year depreciation period while conventional construction was depreciated for 39 years. Check with your accountant for a review of the current Federal and State tax laws and to discuss other tax advantages that may be available to you, both from the viewpoint of the type of product purchased and the timing of the purchase.

To continue, conventional construction, by its nature, becomes a permanent structural addition to a building, and thus it is classified as "real property" with the longer 39-year depreciable life. On the other hand, portable buildings and modular offices can be dismantled, relocated and reassembled. This mobility, under the Modified Accelerated Cost Recovery System (MACRS), allows these products to be classified as "tangible property" with a shorter 7-year depreciable life.

Example:

Assume the cost of a new office is \$20,000. At the end of 8 years (Y2 year depreciation in the year of acquisition and in the 8th year of the life of the office) the modular office system has fully depreciated and reduced taxable income by the original \$20,000 cost. Conversely, the conventional construction has only depreciated 21% and reduced taxable income by \$4,103. Assuming a 34% tax rate you pocket \$5,405 in tax savings over the first 8 years.

| Construction Method | Cost | 8 Year Depreciation Deduction | Tax Rate | 8 Year Reduction |
|---------------------------|----------|-------------------------------|----------|------------------|
| Modular Office | \$20,000 | \$20,000 | 34% | \$6,800 |
| Conventional Construction | \$20,000 | \$4,103 | 34% | \$1,395 |
| 8 Year Tax Savings | | | | \$5,405 |

If the difference in the reduction of taxes (\$5,405) were invested at 8% for the remaining 31 years, the result would be substantial and could approach \$64,000.

The accelerated depreciation for modular offices or other portable structures means faster recovery of the total cost.

Under section 179 of the Internal Revenue Code, tangible property may be treated as an expense deduction rather than a capital expenditure. The maximum deduction allowed for in tax year 2006 was \$108,000.

This example is not intended as tax guidance. Since tax laws are constantly being modified, we suggest that you consult with your accountant to determine the application of these provisions.

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