



DEPRECIATION OF MODULAR SYSTEMS

Depreciation is an extremely important element in the financial planning of most businesses. It is a "non-cash" expense, which the government allows businesses to claim against income. If your business nets \$100 and you claim \$10 depreciation, you only pay taxes on \$90. If you are in the 38% corporate tax bracket, you pay \$3.80 on every \$10.00 of income. By sheltering \$10 of cash flow you save \$3.80 in taxes.

Depreciation allows you to "recover" a portion of your investment over time, through tax savings. If you fully depreciate an investment in plant or equipment, and you are in the 38% [corporate] tax bracket, you will eventually recover 38% of the cost of your investment. But money has a time value. If you only recover the 38% over many, many years, the effect is negligible, if you "recover" in just a few years, it is significant.

US tax law is structured to differentiate between personalty and realty. Personalty is personal, tangible property; realty is fixed, permanent tangible property. If the material is designed to be moved, it is personal. If it is fixed, not designed to move, it is realty.

Furniture, office cubicles and equipment such as copiers, fax machines, etc. are personalty. Bricks, mortar, windows, roofs, plumbing, wiring, etc. are considered realty.

Personalty is "written off, or depreciated, over 5-7 years (6-8 annual periods). Realty is written off over 39 years. Realty is also depreciated "straight-line", i.e., by the same amount every year (2.56%). Consider a \$100,000 investment in electrical wiring depreciated straight-line, over 39 years. 20.48% of the investment is written off after 8 years. The same investment in modular wiring would be 100% depreciated after 8 years. Compare the benefit:

A. Hardwire	\$100,000x20.48%	= \$20,480 depreciated
	\$ 20,480 x .38 (corp tax rate)	= \$ 7,782 "recovered"
B. Modular wire	\$100,000 x 100%	= \$100,000 depreciated
	\$100,000 x .38	= \$ 38,000 "recovered"

All things being equal, the owner of modular wired property would pay \$30,218 less in taxes over the eight years. CFO's pay close attention to this type of information. They are paid on their ability to maximize income and accelerated depreciation is a great technique for doing so.

We are not tax advisors. Customers should always seek competent tax advice.

Page 2 provides a cost-benefit analysis of a typical modular wiring job.



DEPRECIATION OF MODULAR SYSTEMS

XYZ TOWER Typical project -1,000 work stations - 2 types of power - clean & dirty.

Wiring:

Hardwire:	Material	\$ 167,000
	Labor	\$ <u>162,000</u> (\$50/hr.)
	Installed Cost	\$ 329,000*
Modular Wire:	Material	\$211,000
	Labor	\$ <u>37,000</u> (\$50/hr.)
	Installed Cost	\$ 248,000*

A. Straight - Line Depreciation - Hardwired

39 Year Schedule	\$329,000x2.56	\$ 8,422yr.
Tax Savings	\$ 8,422x0.38	\$ 3,200yr.

8 Yr. Tax Savings \$ 3,200 x 8 yrs..... \$ 25,600

B. Accelerated Depreciation (MACRS) per Federal Tax Code

<u>Rate</u>	<u>Depr. Rate</u>	<u>Amount Depr'd.</u>	<u>Tax Rate</u>	<u>Annual Tax Savings</u>
1	14.29	35,439	.38	13,467
2	24.49	60,735	.38	23,079
3	17.49	43,375	.38	16,483
4	12.49	30,975	.38	11,771
5	8.93	22,146	.38	8,416
6	8.92	22,122	.38	8,406
7	8.93	22,146	.38	8,416
8	4.46	11,061	.38	4,203
8 yr. Tax Savings				\$ 94,241

Note impact of front-loading with MACRS:

3 yr. Tax Savings	\$ 53,029
Vs. straight-line:	
3 yr. Tax Savings	\$ 9,600

Clearly, using modular wiring systems delivers substantial tax benefits to owner

* Depreciable expenses include material and labor. The IRS includes both in depreciating an investment.