

## White Paper: Depreciation and Tax Considerations for LECTRUS “Equipment Centers” vs. Site Constructed “Buildings”

Current tax laws allow very favorable depreciation on all Lectrus, “Equipment Centers” (portable, modular metal enclosures). These products qualify for a 7-year depreciation period while conventional permanent construction is depreciated over 39 years. Understanding the significance of this difference is very important.

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**.

Lectrus, products, on the other hand can be fully dismantled, relocated, and reassembled. This mobility, under the Modified Accelerated Cost Recovery System (MACRS), allows the Lectrus, products to be classified as “tangible property” with a shorter **7-year depreciable life**.

**EXAMPLE:** Assume the cost of a new structure is \$100,000. At the end of 7 years, the Lectrus, “Equipment Center” is fully depreciated and has reduced taxable income by the original \$100,000 cost. Conversely, the permanent construction has been depreciated less than 18% and reduced taxable income by only \$17,950. Assuming a 34% tax rate, the Lectrus, “modular” solution provides **\$27,900 in real dollar tax savings** during the first 7 years!

CONSTRUCTION METHOD	COST	7 YEAR DEPRECIATION DEDUCTION	TAX RATE	7 YEAR TAX REDUCTION
Lectrus' Modular Office	\$100,000	\$100,000	34%	\$34,000
Permanent Construction	\$100,000	\$17,950	34%	\$6,100
<i>7 Year Tax Savings</i>				<i>\$27,900</i>

But the savings don't stop here. Invest the \$27,900 difference and let it pay for your original \$100,000 investment one day!

**Shorter depreciation periods produce accelerated depreciation for Lectrus, products and that means faster recovery of total costs.**

Since tax laws are constantly being modified, we suggest that you consult with your company accountant to determine the application of these provisions.

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