Tax Benefits are Available for LED Lighting Installation at C-Stores

Permanent tax code change provides potential for significant tax savings

In December, 2015, President Obama and the Senate approved legislation that provides convenience store owners, jobbers and other small businesses with several significant tax benefits. These tax incentives enable those making site improvements through the installation of LED lighting to capture Section 179 benefits in 2016.

By signing the "The Protecting Americans from Tax Hikes Act of 2015," President Obama extended or made permanent several modifications to Section 179 of the tax code – benefits that already have helped fuel marketers capture significant accelerated depreciation for capital improvements and ~~fueling equipment~~gas pump (dispenser) purchases. These benefits extend to the installation of LED lighting, a capital improvement that can pay for itself in less than three years through energy savings of more than 75 percent over incandescent lighting, according to a recent case study by LSI Industries, a leader in the manufacture and sales of LED lighting fixtures for convenience retail.

Why should retailers upgrade to LED lighting?

The advantages to LED lighting include utility savings, lower environmental impact, enhanced site appearance, and heightened forecourt security.

Energy Star – the U.S. Environmental Protection Agency's program that promotes superiority through energy efficiency – found that qualified commercial LEDs use 75 percent less energy, and last 35 times longer, than incandescent light bulbs. That savings can amount to more than $500 per month for a typical convenience store.

LEDs are recognized for improving lighting on the forecourt and in-store. The brighter, whiter, light appeals to all consumers, and especially to female shoppers, who welcome the enhanced security while fueling. Today's consumer will actually go the extra mile or two to find a fuel station offering the right sense of security, according to a recent study by Market Force.

That raises the specter of a significant risk that potential customers will bypass a location strictly on the basis of dim lighting, or backlit signage in disrepair.

A BP station in Blue Ash, OH, experienced a 76-percent annual energy and maintenance savings by replacing 24 existing 400-watt metal-halide recessed canopy fixtures with LSI Crossover Generation 3 LED canopy lighting, according to a case study recently published by LSI Industries. That savings led to complete recoupment of the upgrade cost in less than three years.

In addition to being the most energy-efficient lighting available, LED lighting has numerous other benefits when compared to both incandescent and compact-fluorescent lighting (CFL). Among these are no sensitivity to low temperatures or high humidity, higher light output per watt, low heat output, and much longer life. The average life span of LED lights is 50,000 hours, compared with 8,000 hours for CFLs and 1,200 hours for incandescent bulbs. In addition, LED light bulbs do not contain toxic mercury and therefore are better for the environment. For comparison, while CFLs provide more energy efficiency than incandescent, each bulb contains 1- to 5-milligrams of mercury, a toxic substance which is added to the environment when old bulbs are disposed of.

What is Section 179 and Bonus Depreciation?

Section 179 is a portion of the federal tax code that allows small businesses to accelerate the depreciation of their capital and equipment spending (and even some business software) into the current tax year. Though the credit was historically $25,000, in a bid to expedite America's recovery from the recession, Congress increased it temporarily to $500,000 in 2010, followed by with similar temporary annual renewals through 2014.

This is a true "small business" incentive, applying to businesses with annual capital spending below $2.5 million.

There are two parts to the provision, the first being, same-year deduction. For capital spending of up to $500,000 on either new or used equipment, 100 percent of the investment may be deducted in the current year. The second is "Bonus" depreciation, which allows for the deduction of 50 percent of capital spending for equipment purchases of $500,000 and $2 million in the first year. For spending between $2 million and $2.5 million, the amount of the bonus depreciation is reduced proportionately.

Here's an example that can help illustrate the impact of the Section 179 for a typical c-store:

Cost of Equipment	**$600,000**	**$600,000**	
1st Year Tax Deductions	**Traditional**	**Section 179**	
- 100% of first $500K		$500,000	
- Bonus Depreciation - 50% to $2M		$50,000	
- Normal 1st Yr Depreciation**	$85,714	$7,145	
TOTAL Year 1 Deductions	$85,714		$557,145
Marginal Tax Rate of 35% (Assumed)	$30,000		$195,000
NET FIRST YEAR COST AFTER TAX:	$570,000		$404,999

With $600,000 of eligible capital expenditures in a year, businesses may usually depreciate assets over 7 years. This would result in a tax deduction of $85,714 ($600,000 / 7 years). With Section 179, the business can fully deduct the first $500,000, plus 50 percent of the next $100,000. This $550,000 deduction leaves the book value of the asset at $50,000 ($600,000 - $500,000 - $50,000). This $50,000 can then be deducted over the 7-year asset life, providing an additional $7,145 deduction.

These deductions total $557,145, providing $195,000 is tax savings in the first year. Capturing 93 percent of the available depreciation in the first year is a strong incentive to accelerate the purchase of new equipment, especially considering that the energy savings from the installation of LED lighting can help the investment pay for itself.

In the "Protecting Americans from Tax Hikes Act of 2015" (**PATH** Act), Congress has locked in the $500,000 maximum deduction, and has extended the 50-percent bonus depreciation provision through 2019. Additionally, the annual maximums will be indexed to inflation.

Section 179 and Bonus Depreciation are just one element of a broader approach to equipment purchasing that allows businesses to maximize their profitability. Leveraging the value of the equipment in a low-cost equipment financing transaction, like that which is facilitated by Patriot Capital, can help to further align cash flows with the purchased equipment, in a term of up to five years.

Of course, there are myriad variables in any financial situation. Patriot Capital recommends consulting with a tax professional to ensure the available tax benefits from 2015's Section 179 and Bonus Depreciation are being maximized.

For more information on LED lighting, please visit:
LSI Industries: http://www.lsi-industries.com/default.aspx
Energy Star: https://www.energystar.gov/index.cfm?c=ssl.pr_commercial
Design Recycle: http://www.designrecycleinc.com/led%20comp%20chart.html

About Patriot Capital
Patriot Capital, a division of State Bank and Trust Company, specializes in enabling entrepreneurs to succeed by providing hassle-free equipment financing in the retail and commercial fueling verticals and other retail and manufacturing industries. Working with its customers to enable them to optimize their financing and capital structures, Patriot Capital is the leading provider of capital equipment financing and leasing to NACS (National Association of Convenience Stores) and SIGMA (Society of Independent Gasoline Marketers of America) members.

Contact:
Patriot Capital, a division of State Bank and Trust Company
Richard Browne, Vice-President Marketing,
Cell: (404) 977-1251
Email: rbrowne@patriotcapitalcorp.com