To Slash Taxes,
Buy Assets and Lease Them Back to Your Company

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It's bad enough when you have to pay tax once to the IRS. But C corporation owners are hit with a double tax whammy; first, when the corporation pays tax and, second, when Uncle Sam taxes them personally on dividends paid out by the company.

Strategy: Buy property and assets personally and lease them back to your company.

That way, the company pays you deductible lease payments instead of nondeductible dividends, and you can offset the income with depreciation or amortization deductions.

That technique works particularly well with real estate and other assets that are likely to appreciate in value.

In fact, if your company already owns a business building, you can buy it from your company now and lease it right back.

Example: Sale-leaseback deal. Suppose your company bought its building years ago and has since depreciated it down to zero. You estimate the build-ing and adjacent land are currently worth $1.5 mil-lion. Your company needs a quick cash infusion for proposed expansion, but money is tight.

Solution: Buy the building from your company for $1.5 million – using mostly cash you've borrowed – and lease it back. Then you begin depreciating the building all over again, using a 39-year write-off period. Your company pays the going rate for rentals in your area, but the rental income is offset by the depreciation and other related expenses.

Your company now has the cash it needs for expansion. Also, it can now deduct rental payments for a building that had previously been fully depreciated.

In comparison, your company receives no tax deduction for money paid to you as dividends. The downside is that the company must pay tax on the gain.

Fly under IRS radar: his technique can be perfectly legal, but the IRS often casts a skeptical eye on such deals.

To make sure your deal is legit and satisfies IRS standards, meet these five requirements:

1. The property's useful life must exceed the lease term.

2. Any lease renewal is set at a market value.

3. The buyer reasonably expects to profit from the deal.

4. The property is sold at fair price, and the buyer assumes the risk of losing money.

5. A valid nontax business reason exists for the rental (e.g., leasing assets instead of owning them can release working capital).