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Hardware as a Service: Tax-Free IT

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When it comes to information technology, many businesses are all too familiar with the technical complications—the complexity, the problems related to upgrading, the downtime, and so forth. But there's another issue to be concerned about that has nothing to with the commonly felt IT headaches: accounting. Many enterprises have already decided that the technical side of IT and the potential direct cost savings are reason enough to outsource the responsibility to a third party with expertise, but there are considerations that make outsourcing a compelling option from another standpoint as well: OPEX versus CAPEX.

OPEX vs. CAPEX: The Distinction Explored

OPEX stands for operational expenditures and CAPEX stands for capital expenditures. What's the difference?

Capital expenditures (CAPEX) refer to business purchases that have some benefit down the road. These tend to be something tangible—investments in production equipment, for example, or a new building. Operational expenditures (OPEX) are money spent on the day-to-day aspects of doing business. For instance, wages and equipment repair fall under the OPEX category.

From a tax standpoint, there's a significant difference between the two. Due to their immediacy, expenses in the OPEX category can be fully deducted from tax obligations in the same year that the expenditure was made. When it comes to CAPEX, on the other hand, because the expenditures involve a future benefit, deductions for those expenses must be spread out over multiple years.

OPEX and CAPEX and Their Application to IT
What does the OPEX/CAPEX distinction mean when it comes to information technology? When a company purchases IT equipment, it is classified as a capital expenditure. As the equipment depreciates over time—several years, in practical terms—the tax deduction is slowly and gradually applied. This is a potential significant negative for the cash flow of a business. If, however, a company outsources its IT services to an expert managed services provider, the cost of the service is regarded as an operational expenditure. Each year, the full cost of IT service is tax deductible.

Other Benefits

Of course the benefits of outsourcing IT services to a managed services provider aren't limited to a tax advantage. Among the other benefits are:

- Expertise. You're contracting with a firm whose business is information technology.

- Better Use of Human Resources. Your employees can concentrate on what they do best—the substantive nature of their jobs—rather than spending their time dealing with IT problems.

• Avoiding Upgrade Headaches. The constant turmoil associated with hardware upgrades is someone else's problem. In effect, you gain the advantage of never having to deal with the problem of obsolete hardware ever again.

• Reduced Downtime. A managed service provider will be better able to recognize impending problems and solve them before they cause you trouble.

The Final Word

There are a host of compelling reasons for many businesses to consider outsourcing their IT functions, from direct cost savings to fewer operating and upgrading headaches to fiscal advantages. Contact us today to see how you can realize all of the benefits.

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