



ECONOMIC STIMULUS ACT OF 2008

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The Economic Stimulus Act of 2008 provides enhanced asset write-offs plus bonus depreciation

The Economic Stimulus Act of 2008 (“Act”) provides major tax benefits for businesses. While the Act was initially more known for the tax rebates that individuals will receive to jump-start the U.S. economy, it also provides for major business tax incentives aimed to provide a shot in the arm to boost the slowing economy.

Prior to the new law, a business could expense the first \$128,000 of the cost of qualifying property in 2008. The remaining amount of the qualified property must generally be depreciated over five years, seven years, or a longer period. This maximum Code Section 179 expense is allowed as long as a business purchases less than \$510,000 of qualifying property. The Code Section 179 expense amount is reduced dollar for dollar by the cost of qualified property placed in service during the tax year in excess of \$510,000, completely phasing out for a business that placed into service over \$638,000 of qualifying property in 2008.

The Economic Stimulus Act of 2008 provides for an increase in the Code Section 179 expense allowance up to \$250,000. In addition, the 2008 investment limitation is increased from \$510,000 to \$800,000 of qualifying property. Accordingly, the investment limitation does not completely phase out until the business purchases more than \$1,050,000 of qualifying property. With the higher expense amounts and the higher investment ceilings, this provision will benefit larger businesses as

well as small businesses in 2008. Qualifying property must be tangible personal property which is actively used in the taxpayer’s business and for which a depreciation deduction would be allowed. The property can be new or used property. The increased Code Section 179 expense provisions apply to the taxpayer’s taxable year beginning in 2008. Accordingly, fiscal-year taxpayers must be sure to purchase the property and place it into service in the proper tax year to take advantage of the increased expensing provisions. After the 2008 tax year, the \$250,000 expensing provision will revert to \$125,000 for 2009 and 2010, indexed for inflation.

The second major tax break in the Act provides for 50 percent bonus depreciation on new equipment purchases. The Act reinstates bonus depreciation at the 50 percent rate for qualifying property acquired after December 31, 2007, and placed into service before January 1, 2009. There are some exceptions for certain types of transportation property. To be eligible for 50 percent bonus depreciation, qualified property must be tangible personal property with a depreciation recovery period of 20 years or less, off-the-shelf computer software, or qualified leasehold property. The bonus depreciation rules, therefore, allow 50 percent of the cost of eligible property to be deducted in the asset’s first year.

Bonus depreciation is applied to assets after the increased Code Section 179 expense provisions described above and prior to applying the regular depreciation allowance to the remaining cost of the property.

The following illustrates the magnitude of the first-year tax deductions that would be available to a business that purchases new five-year property at a cost of \$700,000 under the Act:

Code Section 179 expense	\$250,000
Bonus depreciation expense	225,000
Regular depreciation expense	<u>45,000</u>
Total first year deductions	<u>\$520,000</u>

The new law also increases the limitations on “luxury” auto depreciation to accommodate a modified version of the 50 percent bonus depreciation rules. The law increases the first-year limitation on depreciation for passenger automobiles placed in service in 2008 by \$8,000, increasing the first-year deduction for business vehicles to approximately \$11,000.

Unlike the rules for Code Section 179 expensing of assets described above, there are no limits on the amount of new assets that can qualify for the 50 percent bonus depreciation provision. However, used property is not eligible for the bonus depreciation deduction. Since the 50 percent bonus depreciation provision is based on new property being purchased and placed in service during calendar year 2008, taxpayers must plan their purchases accordingly to take advantage of this provision by December 31, 2008.

The Act also provides that taxpayers may elect out of the 50 percent bonus depreciation provisions. Electing out of this provision would benefit taxpayers who may have loss carryforwards that are near expiration.

The combination of the above two business provisions can dramatically reduce a taxpayer’s income subject to taxes. In addition, taxpayers who take advantage of these provisions should be able to reduce their current-year estimated income tax payments, thereby increasing their current cash flow.

About the Author

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