

The Economic Stimulus Package Act of 2008

Manufacturers Take Note: Robust Tax Incentives for Capital Investment

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The Economic Stimulus Package Act of 2008 includes two notable business-related tax incentives that may lower the cost of investing in new equipment and spur new orders from customers. Increased expensing (Section 179) limits for smaller businesses, and a 50 percent “bonus” depreciation will provide benefits to businesses of all sizes. In addition, businesses that qualify for the increased expensing may also take advantage of the bonus depreciation.

Expanded Section 179 Expensing

To spur additional investment, The Act increases the Section 179 limit for initial year expensing to \$250,000 (from \$128,000). The Section 179 expensing election allows a current deduction for newly acquired assets that otherwise would have to be depreciated over a number of years. Because this tax break is designed to benefit primarily smaller businesses, the expensing election begins to phase out dollar for dollar when total asset acquisitions for the tax year exceed \$800,000 (up from \$510,000 before The Act).

In short, a company can purchase capital assets up to \$800,000 and be able to write off the first \$250,000 of purchases (as long as there is positive taxable income after taking the deduction). Spending on equipment above the \$800,000 limit, however, reduces the deduction by the amount that exceeds the limit. For example, a company which purchases equipment totaling \$850,000 can write off \$200,000 (\$250,000 maximum deduction reduced by \$50,000, the amount exceeding the \$800,000 limit).

The new higher limit applies for tax years beginning in 2008 only.

First Year Bonus Depreciation

Another depreciation-related provision offers a bonus, or accelerated, depreciation allowance for certain property if it is purchased and placed in service in 2008. This provision is available regardless of the size of the company’s investment. For eligible property, the bonus depreciation amount is equal to 50 percent of its adjusted basis. The remaining basis can be either be deducted under the expanded Section 179 or depreciated under regular depreciation rules.

For example, a new \$100,000 machine can provide a \$50,000 first year deduction *in addition to* its regular first year depreciation of \$7,000 (50 percent of \$100,000 plus 14 percent of the remaining basis, for a total of \$57,000).

Qualifying property includes:

- Tangible property with a recovery period of 20 years or less,
- Computer software purchased by the business,
- Water utility property, and
- Qualified leasehold improvement property.

How The Act Affects Vehicle Depreciation

The Act also raises the first-year limitation on luxury auto depreciation (Section 280F) to \$8,000 for vehicles purchased and placed in service in 2008. In other words, Section 179 expensing is limited to \$8,000 for qualifying vehicles, assuming 100% business use. The maximum first-year combined expensing/depreciation deduction for 2008 is, therefore, \$11,060 for an auto (\$8,000 expense plus \$3,060 depreciation) and \$11,260 for a light truck or van.

The Act did not change Section 280F first-year depreciation limitations for heavy SUVs (those with a gross vehicle weight rating of more than 6,000 pounds), which remains at \$25,000. The 50 percent bonus depreciation can, however, be combined with the \$25,000 Section 179 expensing for a real tax saving opportunity. However, this tax loophole could be closed with the enactment of the “Renewable Energy and Energy Conservation Tax Act of 2008” which eliminates tax preference for heavy SUVs and subjects them to the same limits as light trucks.

A Real Bonanza for 2008

Because both the Section 179 limit and the bonus depreciation can provide large 2008 deductions, you may want to consider making major asset purchases this year. By taking advantage of both provisions, some small and medium-sized companies could possibly offset most, maybe all, of their taxable income. Of course, it is advisable to consult your tax professional before making any major acquisitions.

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