

FEBRUARY, 2008

ALERT: Bigger tax breaks for many businesses buying capital assets or placing them into service in 2008

The newly signed Economic Stimulus Act of 2008 enhances several types of tax incentives for businesses to buy and place capital assets (tangible personal property) into service. The two major incentives allow for qualified capital assets to be expensed more rapidly, rather than depreciated over a period of time. These two incentives can be applied cumulatively for qualified assets, resulting in potentially much greater tax savings in a short period.

50% first-year depreciation for new capital assets

For most *new* capital assets acquired and placed into service in *calendar year 2008*, the Stimulus Act allows a depreciation deduction of 50% of the asset's cost for the first year in which you purchase the asset and place it in service. This is a significant increase from the allowable depreciation for most capital assets, which usually extends the depreciation period over 3 to 20 years.

The 50% first-year depreciation deduction may be claimed for a capital asset in combination with enhanced Section 179 expensing, but if so, the 50% must be calculated after subtracting the amount expensed under enhanced Section 179 expensing. *An example of how these two incentives work together follows at the end of this alert.*

Assets purchased under a binding contract before Jan. 1, 2008 but placed in service in 2008 are subject to special rules that may limit qualification for the 50% first-year depreciation deduction.

Enhanced Section 179 expensing for new or used capital assets

The Stimulus Act also increases the amount businesses can immediately deduct as an expense (rather than depreciate) of the cost of qualified *new or used* capital assets (other than buildings) placed in service in *tax years beginning in 2008*. Previously, the limit was \$128,000 that could be expensed; the new limit is \$250,000.

Section 179 expensing provides benefit to a business increasing the overall investment limit to \$800,000. Past \$800,000, the benefit is reduced one dollar for every dollar spent over \$800,000. Thus, the benefit is phased out for capital spending between \$800,000 and \$1,050,000, with no benefit accruing to a business spending more than \$1,050,000 under the Stimulus Act.

Example showing enhanced Section 179 expensing with 50% first-year depreciation

To demonstrate how these two incentives work together, imagine a company purchases a new capital asset costing \$500,000, places it in service in a tax year beginning in 2008, and has no other qualifying capital purchases. The company could write off \$400,000 of the cost of the asset in 2008 as follows:

Under the enhanced Section 179 expensing, the company may expense \$250,000 (the new expensing limit) in the tax year beginning in 2008. Then, the company may depreciate 50% of the capital asset cost remaining AFTER the Section 179 expense.

The calculation would be: Original asset cost of \$500,000 less enhanced section 179 expensing of \$250,000 leaves a total of \$250,000 in cost for deduction or depreciation. Using the 50% first-year depreciation deduction, half of the remaining \$250,000 can be depreciated immediately (\$125,000 depreciation deduction). Then, the remaining \$125,000 is depreciated under the company's capital asset depreciation schedule. Assuming a 5-year life, the MACRS depreciation in the first year would be \$25,000. Section 179 expensing of \$250,000 plus bonus depreciation of \$125,000 plus \$25,000 regular depreciation equals \$400,000 write-off in the first year.

Auto first-year depreciation cap raised by \$8,000

The total depreciation that may be claimed on a "passenger auto" *placed in service in 2008* has been raised by \$8,000 from the inflation-adjusted dollar caps previously in place. Ranging from approximately \$3,060 to \$3,260 by type of vehicle placed in service in 2007, the new caps will increase to more than \$11,000 for the first-year depreciation dollar limit for a qualified passenger auto.

To maximize the benefit your organization receives from these incentives, you may want to consult your AGH tax professional to determine the appropriate tax strategy and timing for capital asset purchases. If you have questions about this alert or any aspect of your tax planning, please contact AGH at (316) 267-7231.

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