
Economic Stimulus Act Provides Small Business Benefits

In an effort to spur economic growth, Congress has brought back two of its favorite economic stimulus tax breaks: an increased first year write off of assets purchased and a bonus depreciation allowance for 2008. Both tax breaks came in to prominence after the September 11 attacks when, as an incentive for businesses to continue expansion, the first year write off was increased three fold and the bonus depreciation was introduced. While the initial bonus depreciation provision ended January 1, 2005, the first year write off has remained. In fact, it has increased steadily upward, culminating in this recent dramatic increase.

First Year Write Off (Section 179 Expense)

The Economic Stimulus Act increased the amount of capital assets that can be expensed immediately on a business' tax return instead of depreciated over its useful life from \$128,000 to \$250,000, as long as the business does not place into service more than \$800,000 of capital assets. Eligible capital assets include:

- ***Tangible personal property***
- ***Off the shelf software***

Other requirements that need to be met in order to qualify for the immediate write off include:

- ***Property must be used in an active trade or business***
- ***Property must be newly purchased***
- ***Property must be purchased by the end of 2008***
- ***Can only be used to offset taxable income (cannot create a taxable loss), though it can be carried forward to offset future taxable income***
- ***Limits are different for non calendar year taxpayers***

Bonus Depreciation Allowance

Congress has resurrected the bonus depreciation allowance for those that cannot qualify for either some or all of the first year write off. It allows a business to take an immediate 50 percent deduction for certain capital assets that have been purchased and placed into service in 2008. Eligible capital assets include:

- ***Tangible personal property***
- ***Off the shelf software***
- ***Certain qualified leasehold improvements***

Other requirements that need to be met in order to qualify for the bonus depreciation allowance include:

- ***Property must be newly purchased***
- ***Property must be purchased by the end of 2008***

The use of the bonus depreciation is discretionary, meaning that you are not required to claim it if you feel it is not beneficial. An example of an instance where it would not be beneficial is if the business projects that its taxable income will increase significantly in the near future. The business may then be in a higher marginal tax bracket and the use of the deduction could be better used in that future period. Remember, the tax breaks are not additional deductions, but rather an acceleration of deductions you would normally get.

A business should also remember that virtually all states have decoupled from federal tax laws as they pertain to depreciation, so the same current tax benefits will not apply. Additionally, one must consider the costs involved in tracking the different depreciation for states it does business in versus the benefits of the accelerated deductions.

Tough economic times have made most business owners extremely cautious when it comes to the acquisition of new assets. The stimulus package provides needed relief and an incentive to those businesses that have to acquire new assets. Business owners should explore whether it is beneficial to make acquisitions in 2008 and take advantage of the stimulus tax breaks. For more information, please email Paul McGovern at pmcgovern@downeycocpa.com.

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