



## **American Recovery and Reinvestment Act of 2009 (ARRA)**

President Obama signed the American Recovery and Reinvestment Act (ARRA) on February 17, 2009. The intent of the law is to stimulate capital investment by offering both an increased depreciation benefit (bonus depreciation) and an increased expensing allowance in the first year of ownership.

This letter explains the differences and similarities between the 2009 ARRA and the provisions in the prior stimulus package to customers pertaining to the acquisition of new material handling equipment.

The new ARRA stimulus package basically extended the provisions in the 2008 act that applied to sales of new forklift equipment. The ARRA extends both the Internal Revenue Code Section 179 expensing election as well as the bonus depreciation provisions consistent with the 2008 law.

As in the 2008 law, the 2009 ARRA permits businesses to take an additional 50% first year depreciation write-off for tax purposes on new capital expenditures including new material handling equipment that is ordered and put into service by year-end. The 2009 law increases the amount small businesses can write off for new and used equipment purchases during the year (Section 179).

Listed below are additional details and examples of the 50% bonus depreciation and Section 179.

[see next page]

## American Recovery and Reinvestment Act of 2009 (ARRA)

The regular first year allowance for depreciation is permitted, but it is computed on the purchase cost reduced by the 50% incentive write-off. Over the depreciable life of the asset, the total depreciation write-off remains the same as it would have been before either the 2008 or 2009 laws. Basically the ARRA increases the first year depreciation write-off while reducing depreciation available in later years.

### Example:

A customer finances a new forklift for \$25,000 on May 1, 2009 as a FPO 1.00. For the 2009 tax year, the customer is allowed a depreciation write-off for tax purposes of \$15,000 as compared to a \$5,000 depreciation write-off prior to either of the stimulus packages.

ARRA before either stimulus package:

Cost Basis: \$25,000 Cost Basis: \$25,000  
50% Additional Bonus Depreciation: \$12,500  
Regular Depreciation: \$ 2,500  
Regular Depreciation: \$ 5,000  
Total First Year Depreciation: \$15,000  
Total First Year Depreciation: \$ 5,000

---

Section 179 expensing election more than doubles the amount a small business can write off in addition to the allowable depreciation for new or used equipment purchased during 2009 from \$130,000 (\$128,000 in 2008) to \$250,000.

It also increases the amount that can be purchased during 2009 that will qualify for this write-off from \$530,000 (\$510,000 in 2008) to \$800,000 with a dollar-for-dollar phase out for annual equipment purchases over \$800,000 with a maximum limit of \$1,050,000 (same as 2008).

Note: Customers can also apply the 50% bonus depreciation on the remaining basis of the equipment if it is new.

### Example:

The customer makes \$475,000 of purchases of new equipment in 2009.

ARRA: Before either stimulus package:

Cost Basis: \$475,000 Cost Basis: \$475,000  
1st Year Write-Off \$250,000 1st Year Write-Off \$128,000  
50% Bonus Depreciation \$112,500 50%  
Regular Depreciation \$ 22,500  
Regular Depreciation \$ 69,400  
Total 1st Year Tax Deduction \$385,000  
Total 1st Year Tax Deduction \$ 199,400

Note: Some potential customers may have current period losses such that the current tax deductions may not result in immediate cash flow benefits. Nothing contained in this letter is intended to and does not constitute tax, accounting, financial or legal advice. You should consult your professional advisors for any such advice.