



## 2008 Economic Stimulus Package

President Bush signed into law on February 13, 2008 the 2008 Economic Stimulus Package. Under this new law, businesses are permitted 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 in 2008. Also as part of the package there was an increase in how much small businesses can write off for new and used equipment purchases in 2008 (Section 179).

### 50% Bonus Depreciation

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 this law. In other words, the new law 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, 2008 as a FPO 1.00. For the 2008 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 this law.

#### New Law:

Cost Basis:	\$25,000
50% Additional Depreciation:	\$12,500
Regular Depreciation:	<u>\$ 2,500</u>
Total First Year Depreciation:	\$15,000

#### Before the New Law:

Cost Basis:	\$25,000
Additional Depreciation:	n/a
Regular Depreciation:	<u>\$ 5,000</u>
Total First Year Depreciation:	\$ 5,000

### Section 179

The increased Section 179 Expensing for Small Business more than doubles the amount a small business can write off rather than depreciate for new or used equipment purchased during 2008 from \$128,000 to \$250,000. The new law also increases the amount that can be purchased during 2008 that can qualify for this write-off from \$510,000 to \$800,000 with a dollar to dollar phase out over \$800,000 with a maximum limit of \$1,050,000. You can also apply the 50% bonus depreciation on any of the remaining basis of the equipment if it is new.

#### Example:

- \$475,000 of purchases of new equipment in 2008

#### New Law:

Cost Basis:	\$475,000
1 <sup>st</sup> Year Write-Off	\$250,000
50% Bonus Depreciation	\$112,500
Regular Depreciation	<u>\$ 22,500</u>
Total 1 <sup>st</sup> Year Depreciation	\$135,000

#### Before the New Law:

Cost Basis:	\$475,000
1 <sup>st</sup> Year Write-Off	\$128,000
50% Bonus Depreciation	n/a
Regular Depreciation	<u>\$ 69,400</u>
Total 1 <sup>st</sup> Year Depreciation	\$ 69,400

Again, the intent of this new law is to stimulate capital acquisitions now by businesses through offering an increased depreciation benefit and expensing in the first year of ownership for the owners of the equipment. Please make sure your customers know about this law and review it with their financial and legal advisors.