

Going, going, gone

Act now to take advantage of the 2008 Economic Stimulus Act. **Interviewed by Leslie Stevens-Huffman**

The incentives provided under the Economic Stimulus Act of 2008 will expire on Dec. 31. The legislation was designed to provide economic stimulus through incentives for business investment. It was originally estimated that businesses would save \$50 billion in near-term taxes through a temporary change to the tax code that allows companies purchasing new equipment in 2008 to deduct up to \$250,000 in qualifying capital expenditures as well as reinstating bonus depreciation to allow businesses to deduct 50 percent of their capital asset expenditures for 2008. With only a few months left in 2008, CEOs must act now or risk losing out on the opportunity.

“Essentially, for every dollar businesses invest on assets this year, they’ll save up to 45 cents in tax benefits, lowering their effective cost for purchasing the asset,” says Kevin Krogstad, senior tax manager with Haskell & White LLP. “Companies that need new manufacturing equipment, vehicles, computers or office furniture should buy now to get the tax savings. The equipment must be purchased and placed into service during 2008 to qualify, so CEOs should review their needs to avoid missing out on the benefit.”

Smart Business spoke with Krogstad about the Economic Stimulus Act’s parameters and the associated tax savings.

What are the increased expensing limits under the Economic Stimulus Act?

The Economic Stimulus Act increases the annual expensing limit under IRC §179 from \$128,000 to \$250,000 beginning in 2008. The investment ceiling limitation was also increased from \$510,000 to \$800,000. Thereafter, the amount eligible to be expensed is reduced dollar for dollar for purchases exceeding the \$800,000 ceiling. For 2008, a taxpayer’s expensing limitation is phased out completely for the year, once its investment in qualified property reaches \$1,050,000.

It’s important to note that the maximum amount that may be expensed under §179 is limited to the amount of taxable income resulting from the taxpayer’s active trades or businesses, so effectively, your business must be in the black to qualify. However, in most instances, a taxpayer should still elect



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for the deduction, as making the election will preserve the right to carry depreciation forward to other years. Absent making the election, the taxpayer can recover the cost of the investment only through depreciation deductions spread over the applicable recovery period.

Which businesses stand to benefit?

As a result of this incentive, most small companies and even some midsized businesses with moderate capital equipment needs will be able to obtain a full deduction for the cost of business equipment and machinery purchased in 2008, reducing their effective cost for those assets. And one more bit of good news, for federal tax purposes, there’s no alternative minimum tax (AMT) adjustment with respect to the property expensed under §179.

Does the act reactivate the bonus depreciation benefit enacted under prior stimulus packages?

Yes. The act provides 50 percent bonus depreciation for both regular and alternative minimum tax purposes for ‘qualified property’ acquired during 2008. The re-

maining 50 percent of the asset’s basis is eligible for regular depreciation deductions over the asset’s applicable recovery period. Qualified property is defined as having a recovery period of less than 20 years, which includes most office furniture, office equipment, computers, off-the-shelf computer software, water utility property and qualified leasehold improvement property. The property must be new, and there can’t be any previous contracts showing the intent to purchase the assets before 2008.

Does the act expand the deduction for luxury autos?

The maximum first-year depreciation for luxury autos has increased by \$8,000, from \$2,960 to \$10,960 for qualified autos, trucks and vans placed into service in 2008. The vehicle must meet a 50 percent business use test to qualify. CEOs should note that the maximum §179 deduction for sport utility vehicles weighing more than 6,000 pounds remains at \$25,000.

Do these same benefits apply to California tax calculations?

At this time, California has not adopted the federal provisions. The maximum §179 deduction for California tax purposes is \$25,000, and because the property ceiling for California is \$200,000, the §179 deduction is completely phased out once qualified property additions for the year reach \$225,000. So as far as California is concerned, assets will continue to be depreciated over their applicable recovery periods. CEOs should note that this may create significant federal versus California basis differences upon the ultimate disposition of assets in the future.

In addition, taxpayers should be aware of these differences when calculating taxable income projections for purposes of making estimated tax payments for 2008. Overall, if these purchases will include assets your business needs to expand or even maintain its competitive advantage in the marketplace, the tax benefits might be too good to pass up, but you’ll have to hurry. <<

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