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Economic Stimulus Package – Bonus Depreciation and Increased Expensing Limits

The new Congressionally approved Economic Stimulus Package ("2008 Tax Bill") contains two key provisions that benefit businesses that purchase and place into service various types of machinery, equipment, aircraft and other depreciable property during 2008.

Bonus Depreciation

- A "bonus" depreciation deduction equal to 50% of the cost, plus normal accelerated depreciation on the balance of the cost, of qualified property purchased and placed into service in 2008.
- Qualified property includes tangible personal property eligible for accelerated depreciation with a recovery period of 20 years or less, depreciable computer software, and certain leasehold improvements.
- The bonus depreciation deduction is allowed for both regular tax and alternative minimum tax purposes for the taxable year in which the property is placed in service.
- The original use of the property must commence with the taxpayer after December 31, 2007, and before January 1, 2009 (extended to January 1, 2010, for certain aircraft, transportation property, and property with a production period exceeding one year). Special rules with respect to the original use requirement (generally the same as with respect to the previous bonus depreciation) apply in the case of certain sale/leasebacks and syndications (in each case, within 3 months of original use).
- Bonus depreciation is not available if the original user of the property (or a related party) had a binding contract to acquire the property that was in effect on or before December 31, 2007.

Increased Expensing for Qualified Small Business Taxpayers

- The stimulus package increases the maximum expense deduction (in lieu of depreciation) for 2008 to $250,000 for capital purchases of personal property and depreciable computer software used in the active conduct of a business.

- The full amount of the increased deduction is available to taxpayers who invest up to $800,000 in such eligible property in 2008.

- The increased deduction is reduced on a "dollar-for-dollar" basis to the extent that capital purchases of eligible property made in 2008 exceed $800,000, until it is completely phased out if total purchases equal or exceed $1,050,000.

- The increased deduction is calculated before depreciation, with any non-expensed portion subject to normal depreciation rules.

- The deduction is also limited to the amount of combined taxable income from the taxpayer's active trades or businesses, which includes the amount of wages paid to a taxpayer. The income limitation is calculated before the deduction is taken and without regard to net operating loss carrybacks/carryforwards or suspended losses. Any amount suspended due to this limitation is carried forward indefinitely.

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