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## **Business Provisions of the Economic Stimulus Act of 2008**

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The Economic Stimulus Act of 2008 contains two provisions that provide tax benefits for businesses. The first provision increases the limit up to which a business can expense property purchased and placed in service during its 2008 tax year. The second provision provides an additional 50 percent special depreciation allowance for property acquired and placed in service during calendar year 2008.

Unlike the economic stimulus payments that millions of individuals have already received, the tax benefits for businesses are not automatic; businesses must act to take advantage of the new provisions by purchasing qualifying property.

The Joint Committee on Taxation estimates that businesses stand to lower their 2008 tax bills by roughly \$45 billion as a result of the two business provisions in the Economic Stimulus Act of 2008; these provisions accelerate into 2008 the tax benefits that otherwise would not have been available until future years.

The following are some details about these two key tax benefits:

### **Section 179 Expensing**

- In general, section 179 provides that, instead of depreciating property, a business with a sufficiently small amount of annual property purchases may choose to expense the cost of the property. For taxable years beginning in 2008, the Economic Stimulus Act increased the section 179 expensing limit allowing more property to be currently expensed.
- The Economic Stimulus Act increased the maximum section 179 expense deduction to \$250,000 for qualified section 179 property that is placed in service in tax years that begin in 2008. This is a 95 percent increase from the previous limitation of \$128,000.
- The Economic Stimulus Act also increased the total amount of qualifying property a taxpayer may purchase before the section 179 expensing limit begins to be reduced. Under the new law, the \$250,000 deduction amount is reduced only when a business acquires more than \$800,000 of qualifying property. Prior to changes made by the Economic Stimulus Act, the reduction began when a business acquired more than \$510,000 of qualifying property.

- The new law does not alter the section 179 expense limit for sport utility vehicles, which remains at \$25,000.
- More than 4.5 million small businesses claimed the section 179 expense deduction for tax year 2005, the most recent year for which this information is available. These businesses placed almost \$44 billion of section 179 property in service in 2005 and claimed related deductions of approximately \$41 billion. (Data from Depreciation and Amortization forms filed with Forms 1040.)

### **Special Depreciation Allowance**

- The Economic Stimulus Act also provided a 50 percent special depreciation allowance for property acquired and placed in service during 2008. Depreciation is an income tax deduction that allows a taxpayer to recover the cost or other basis of certain property over several years. It is an annual allowance for the wear and tear, deterioration or obsolescence of the property.
- Under the new law, a taxpayer is entitled to depreciate 50 percent of the adjusted basis (after subtracting any section 179 deduction taken on that property) of qualified property during the year the property is placed in service. **For example**, if the taxpayer purchased and placed in service in 2008 a single piece of property at a cost of \$450,000 that qualified for section 179 expensing and the 50 percent special depreciation allowance, \$250,000 of the cost could be immediately expensed (under section 179 ) and the remaining \$200,000 of adjusted basis would be available for the 50 percent special depreciation allowance. The taxpayer would also be permitted to take regular depreciation on the remaining \$100,000 of adjusted basis during that year. This is similar to the special depreciation allowance that was previously available for certain property placed in service generally before Jan. 1, 2005, often referred to as “bonus depreciation.”
- The types of property that qualify for the 50 percent special depreciation allowance are section 168 property with a recovery period of 20 years or less, off-the-shelf computer software, water utility property and qualified leasehold improvement property.
- To qualify for the 50 percent special depreciation allowance, a taxpayer must meet all of the following tests:
  - ▣ The taxpayer must have acquired the property after December 31, 2007, and before January 1, 2009. If a binding contract to acquire the property existed before January 1, 2008, the property does not qualify for the special depreciation allowance.
  - ▣ The property must be placed in service before January 1, 2009 (before January 1, 2010, for certain transportation property and certain property with a long production period).
  - ▣ The original use of the property must begin with the taxpayer after December 31, 2007. In other words, the property must be “new” property.

- Prior to the enactment of the Economic Stimulus Act the total depreciation amount (including the section 179 deduction) a business could deduct for a passenger automobile was \$2,960. The Economic Stimulus Act increased this limitation by \$8,000. Therefore, the maximum limit is increased to \$10,960 for automobiles for which the special bonus depreciation allowance is claimed.
- Prior to the enactment of the Economic Stimulus Act the total depreciation amount (including the section 179 deduction) a business could deduct for a truck or van used in a business and first placed in service in 2008 was \$3,160. The Economic Stimulus Act increased this limitation by \$8,000. The new maximum limit is increased to \$11,160 for trucks and vans for which the special bonus depreciation is claimed.
- The Economic Stimulus Act is the most recent legislation that provides depreciation tax benefits. Previously, the Job Creation and Worker Assistance Act of 2002 allowed an additional first-year depreciation deduction equal to 30 percent of the adjusted basis of qualified property for property acquired on or after September 11, 2001, and generally placed in service before January 1, 2005. The Jobs and Growth Tax Relief Reconciliation Act of 2003 provided an additional first-year depreciation deduction equal to 50 percent of the adjusted basis of qualified property for property acquired after May 5, 2003 and generally placed in service before January 1, 2005.