

IRS News Release

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2008 Economic Stimulus Act Provides Tax Benefits to Businesses

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WASHINGTON — In addition to providing stimulus payments to individuals, the Economic Stimulus Act of 2008 provides incentives to businesses. These incentives include a special 50-percent depreciation allowance for 2008 purchases and an increase in the small business expensing limitation for tax years beginning in 2008.

50-Percent Special Depreciation Allowance

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 of certain qualified property during the year the property is placed in service. 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.” To qualify for the 50 percent special depreciation allowance under the new law, the property must be placed in service after Dec. 31, 2007, but generally before Jan. 1, 2009.

To reflect the new 50-percent special depreciation allowance, the IRS is developing a new version of the depreciation and amortization form for fiscal year filers. The new form will be designated as the 2007 Form 4562-FY.

Section 179 Expensing

In general, a qualifying taxpayer can elect to treat the cost of certain property as an expense and deduct it in the year the property is placed in service instead of depreciating it over several years. This property is frequently referred to as section 179 property, after the relevant section in the Internal Revenue Code.

Under the new law, a qualifying business can expense up to \$250,000 of section 179 property purchased by the taxpayer in a tax year beginning in 2008. Absent this legislation, the 2008 expensing limit for section 179 property would have been \$128,000. The \$250,000 amount provided under the new law is reduced if the cost of all section 179 property placed in service by the taxpayer during the tax year exceeds \$800,000.

The new law does not alter the section 179 limitation imposed on sport utility vehicles, which have an expense limit of \$25,000.