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PayDay

Important Reminder: The Economic Stimulus Act of 2008 was signed into law on February 13, 2008. This new law is intended to jump-start our economy, in part through tax breaks aimed at encouraging businesses to increase their investments in new equipment by the end of 2008. The Act includes **increased Section 179 expensing** and brings back **bonus depreciation** for 2008. Here are the details.

Section 179 expense almost doubled for 2008

Beginning in 2008, taxpayers can expense (deduct currently, as opposed to taking depreciation deductions over a period of years) up to **$250,000** (increased from $128,000) before capitalizing assets for depreciation. The deduction starts phasing out as more than $800,000 of Section 179 property is placed in service during the year. Once a taxpayer adds more than $1,050,000 of property per year there is no Section 179 deduction. The amount of the expensing deduction is limited to the amount of taxable income from any of the taxpayer's active trades or businesses.

As a result of this incentive, **most small businesses will be able to obtain a full deduction for the cost of business machinery and equipment purchased in 2008.** By increasing deductions, businesses will pay less in

tax.

Bonus depreciation makes a comeback

The Act provides for bonus depreciation (extra depreciation allowed in the first year) by allowing an additional first-year depreciation deduction of 50% of the cost of qualified property placed in service during 2008. **The property must be new property.**

Qualified Property includes:

- Property with a recovery life of 20 years or less (equipment, land improvements, etc.);
- "Off the shelf" computer software; or
- Certain leasehold improvements (if the building is at least three years old).

Assume that in 2008 a taxpayer purchases new equipment and places it in service. The equipment's cost is $1,000 and it is 5-year property. The amount of additional first-year depreciation allowed is $500. The remaining $500 of the cost of the property is deductible under regular depreciation rules. Thus, $100 of depreciation is also allowed in 2008. The total depreciation deduction with respect to the property for 2008 is $600.

The "luxury auto" cap on first-year depreciation is increased by $8,000 for vehicles that qualify. Assume that in 2008 a taxpayer places a new car into service in his business. The taxpayer is allowed first-year depreciation for 2008 of no more than $10,960 ($2,960 plus $8,000). The taxpayer is allowed first-year depreciation for 2008 for a light truck of no more than $11,160 ($3160 plus $8,000).

Please call your business tax advisor or one of AccuPay's CPA/advisors if you have any questions about these new business tax incentives.

PayDay is an email communication of payroll news, legal updates and tax considerations intended to inform clients and colleagues of AccuPay about current payroll issues and planning techniques. You should consult with your CPA or tax advisor before implementing any ideas, comments or planning techniques.

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