



Information about the Depreciation Bonus

[Column from AED explaining the depreciation bonus and Sec. 179 changes](#)

[Link to Joint Committee on Taxation's Explanation of the 2008 Economic Stimulus Act](#)

[Text of 2008 Economic Stimulus Act](#)

[AED/NUCA Study on the Impact of the Depreciation Bonus](#)

[Summary of AED/NUCA Depreciation Bonus Study](#)

[Tax Alert Sept. 9, 2003 \(Issued in relation to the 2002/2003 Depreciation Bonus\)](#)

[IRS Depreciation Bonus Temporary Rules Released Sept. 8, 2003 \(Issued in relation to the 2002/2003 Depreciation Bonus\)](#)

[Link to IRS Website](#)

**The Depreciation Bonus:
Congress Prescribes Powerful Medicine for Economic Recovery**



[Click here for the 2008 Depreciation Bonus Calculator](#)

Help companies considering buying equipment in 2008 understand the basics of the Economic Stimulus Act with this brochure.



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Depreciation Bonus At A Glance

- The Economic Stimulus Act allows additional first-year depreciation of 50 percent of purchase cost
- Depreciation bonus helps businesses that buy equipment this year cut their 2008 tax bill
- Applies, among other things, to purchases of tangible personal property (including construction, mining, forestry, and agricultural equipment) with a MACRS recovery period of 20 years or less
- Equipment must be purchased and placed in service in 2008
- Equipment must be new
- Not applicable if a binding purchase contract existed prior to Jan. 1, 2008
- Allowed for both regular and alternative minimum tax purposes
- Discretionary - Taxpayer need not claim the depreciation bonus
- Depreciation bonus will expire at end of 2008

Sec. 179 Expensing At A Glance

- ESA increases Sec. 179 expensing limit to \$250,000 and phase-out cap to \$800,000

- Companies can expense up to \$250,000 in purchases as long as they don't spent more than \$800,000
- Expensing is phased-out for each dollar that purchases exceed \$800,000
- Companies with total purchases of \$1,050,000 cannot use Sec. 179
- New and used equipment is eligible for expensing
- Applies to tax years that start in 2008
- Can be combined with depreciation bonus
- Sec. 179 expensing levels will drop at end of 2008 (without ESA, the 2008 expensing amount would be \$128,000 and the phase-out level would be \$510,000)

On Feb. 13, President Bush signed the Economic Stimulus Act (ESA) of 2008 into law. It includes significant incentives to encourage equipment purchasing this year.

First, the ESA temporarily reinstates bonus depreciation. Companies that buy equipment in 2008 will be able to depreciate an additional 50 percent of the cost of assets placed in service this year. As with the depreciation bonus enacted in 2002, only new equipment is eligible.

For both the regular tax and the alternative minimum tax, the first-year depreciation deduction otherwise allowed on certain qualified tangible personal property acquired and placed in service during 2008 is increased by 50 percent of the cost of such property.

The ESA also significantly increases Section 179 small business expensing levels for 2008. Under existing law, the Section 179 small business expensing limit for this year would have been \$128,000 with a \$510,000 phase-out threshold. For 2008, the ESA temporarily increases the expensing limit to \$250,000 and the phase-out threshold to \$800,000. Thus, in 2008, a small business can expense up to \$250,000 as long as its qualified equipment purchases do not exceed \$800,000. For each dollar that total equipment purchases exceed \$800,000, the amount that can be expensed decreases by one dollar, so that a company that makes \$1,050,000 in total purchases will not be able to expense anything (but could still claim the depreciation bonus).

For purposes of the Section 179, qualifying property is generally depreciable tangible personal property that is purchased for use in the active conduct of a trade or business. Unlike the depreciation bonus, both new and used equipment is eligible for Sec. 179 expensing.

The deductions provided by the asset expense election and bonus depreciation are illustrated by the following example:

Corporation X purchases and places in service machinery (5-year property) in its calendar 2008 tax year having a cost of \$650,000, which will be subject to the half-year convention. Corporation X will elect to expense \$250,000 under Sec. 179, leaving the machinery with a remaining depreciable basis of \$400,000. Applying the bonus depreciation provided by the Act, Corporation X is entitled to a further deduction in 2008 of \$200,000 (50% of \$400,000), leaving the machinery with a remaining depreciable basis of \$200,000. Standard

first-year depreciation for 5-year property under the half-year convention is 20%, providing Corporation X with further depreciation on the machinery of \$40,000. Accordingly, Corporation X is entitled to a total expense and depreciation deduction of \$490,000 in 2008 on its \$650,000 machinery. The remaining \$160,000 cost of the property is recovered after 2008 under otherwise applicable rules for computing depreciation.

By increasing a company's tax deductions in 2008, the asset expense election and bonus depreciation helps trim tax bills in the short term. However, because there will be less to depreciate in the future, the company's tax bill in later years will be higher.

If recent history is any indicator, the depreciation bonus will have a significant impact on business purchasing. Sixty-seven percent of the respondents to a 2003 survey of National Utility Contractors Association (NUCA) members who said they were aware of the depreciation bonus said that it had prompted their companies to invest in new equipment in the prior 12 months. (To read the full survey report, click [here](#).) Additionally, Bureau of Economic Analysis (BEA) data show that in the second quarter of 2002, the quarter immediately following the enactment of the last temporary stimulus law, business purchasing reversed its negative trend, began to increase, and continued to do so for the rest of the year.

AED is also the process of preparing additional materials to help our members educate their customers. Keep checking our DepreciationBonus.org Web site for more information.

In the meantime, to read a more thorough analysis of the ESA from the Joint Committee on Taxation, click [here](#).

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