2009 Tax Incentives for Equipment Purchases (Gutter Machines)

Depreciation Bonus At A Glance

- Sec. 1201 of the 2009 American Recovery and Reinvestment Act (ARRA) allows additional first-year depreciation of 50 percent of purchase cost by extending for one year the depreciation bonus created by the 2008 Economic Stimulus Act
- Depreciation bonus helps businesses that buy equipment this year cut their 2009 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 2009
- Equipment must be new
- Allowed for both regular and alternative minimum tax purposes
- Discretionary - Taxpayer need not claim the depreciation bonus
- Depreciation bonus will expire at end of 2009

Sec. 179 Expensing At A Glance

- Sec. 1202 of the ARRA extended for one year the increased Sec. 179 expensing limit of $250,000 and phase-out cap to $800,000
- Companies can expense up to $250,000 in purchases as long as they don't spend 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 2009
- Can be combined with depreciation bonus
- Sec. 179 expensing levels will drop at end of 2009 (without ARRA, the 2009 expensing amount would be around $130,000 and the phase-out level would be around $500,000)

On Feb. 17, 2009 President Obama signed the American Recovery and Reinvestment Act (ARRA) into law. It includes significant incentives to encourage equipment purchasing this year.

First, the ARRA extends for one year (i.e., through the end of 2009) the 50 percent bonus depreciation first created in February 2008. Companies that buy equipment in 2009 will be able to depreciate an additional 50 percent of the cost of assets placed in service this year. 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 2009 is increased by 50 percent of the cost of such property.

The ARRA also extended for one year the significantly increased Section 179 small business expensing levels. Without the economic stimulus law, the Section 179 small business expensing limit for this year would have been around $130,000 with a phase-out threshold of roughly $500,000.

However, under the ARRA, for 2009 the expensing limit to $250,000 and the phase-out threshold to $800,000. Thus, in 2009, 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 2009 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 2009 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 2009 on its $650,000 machinery. The remaining $160,000 cost of the property is recovered after 2009 under otherwise applicable rules for computing depreciation.

By increasing a company's tax deductions in 2009, the asset expense election and bonus depreciation help 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 may be higher.