

Businesses Should Consider Asset Purchases Before 2009 Tax Incentives End

As the economic downturn took a toll on businesses, small and large, Congress reacted with legislation aimed at stimulating business investment. The Economic Stimulus Act of 2008, Emergency Economic Stabilization Act of 2008, and American Recovery and Reinvestment Act of 2009 all provide tax incentives for businesses, including additional 50 percent bonus depreciation, higher limits for first-year expensing, and shorter recovery periods for asset depreciation.

With many of these tax provisions set to expire at the end of 2009, business taxpayers with the cash and the credit score considering purchases of business equipment may want to maximize their potential tax savings before the end of the year. Taking advantage of these tax benefits can reduce current taxable income and increase cash flow.

Bonus depreciation

Bonus depreciation and Code Sec. 179 expensing are the primary business incentives set to expire at the end of 2009. Congress extended 50 percent additional first-year bonus depreciation through December 31, 2009 in the 2009 Recovery Act. You deduct 50 percent of the property's cost basis in the first year, before reducing the basis for normal depreciation computed over the property's recovery period (formerly called its useful life), including the first year. However, you can irrevocably "elect out" of bonus depreciation.

Bonus depreciation is available for property with a depreciation (recovery) period of 20 years or less, water utility property, off-the-shelf computer software, and qualified leasehold property (farming equipment also qualifies for bonus depreciation, as well as first-year expensing). The property must be new, and therefore begin with the taxpayer. It must be purchased and "placed in service" before December 31, 2009.

Vehicle depreciation

Through 2009, Congress raised the limits on depreciation of "luxury" automobiles for 2009. The first-year depreciation limit, which is ordinarily \$3,060 for vehicles purchased in 2009, has been raised to \$11,060 (an \$8,000 increase) through the end of the year for property that would otherwise qualify for bonus depreciation. The both limits are higher for vans and trucks. To qualify, the vehicle must be used more than 50 percent for business. For the additional \$8,000 deduction, the vehicle must be new. Used vehicles first used in a taxpayer's business still qualify for a deduction, but only up to the \$3,060 limit.

First-year expensing

In lieu of bonus depreciation, you can elect to write off part, or all, of the cost of one or more assets, up to the limit on "Code Section 179 expensing." The limit is \$250,000 through 2009. Unlike bonus depreciation, first-year expensing applies to tax years *beginning* in 2009. Therefore, a fiscal-year taxpayer is not faced with a December 31, 2009 deadline for acquiring property and placing it into service. Additionally, expensing can be claimed on used as well as new property, unlike bonus depreciation.

Note. If you expense property that is also eligible for bonus depreciation, you should deduct the expensed amount from the property's basis before claiming depreciation. First-year expensing is limited to your taxable income for the year, and cannot be used to generate or increase a net operating loss for the current year. Thus, if you are operating at a loss you should not claim expensing.

The amount that you can expense must be reduced dollar-for-dollar by the amount of the Code Section 179 property placed in service during the year exceeds a specified threshold. The threshold for 2009 is \$800,000. The benefit does not fully phase out until investment reaches \$1.05 million.

Shortened recovery period

Congress reduced the recovery period from 39 years to 15 years for leasehold improvements, restaurant property and retail improvement property placed in service by December 31, 2009. Leasehold improvements also qualify for bonus depreciation as well.

Investing in assets for your business is not just about taxes. You need to consider whether buying business assets makes financial sense this year. However, if you are contemplating investing in your business this year, act before the end of 2009 to take advantage of these incentives.

If you have questions about these and other tax incentives for investing in your business, please call our office. In customizing a plan to your special business needs, we also will be ready to revisit any year-end strategy should Congress decide to extend, with or without modification, any of the depreciation and expensing tax benefits now available.