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Aid for Business in Stimulus Package

By MICKEY MEECE

The economic stimulus legislation approved by Congress on Thursday includes two provisions that would benefit businesses. The first raises — to \$250,000 in 2008, from \$128,000 — the dollar amount of limits on expensing. The second allows for a one-year depreciation deduction of 50 percent of the cost of the property, in addition to regular depreciation on the remaining cost. Barbara Weltman, a lawyer and author of “J. K. Lasser’s Small Business Taxes, 2008,” provides examples of how both would work.

Example, accelerated expensing:

An independent trucker wants to buy a new rig, which costs about \$150,000. Before the new law, he could expense (that is, deduct) only the first \$128,000 of the purchase price. Under the stimulus act, he will be able to write off the entire purchase price (up to the new \$250,000 limit).

Note: The deduction is allowed even if the purchase price is financed in whole or in part. Consult a tax adviser because a business has to be profitable to benefit from expensing.

Example, bonus depreciation:

A company spends \$1 million on replacing all its computers and servers in various locations. Computers are treated under the tax law as having a five-year recovery period for depreciation purposes.

Without bonus depreciation, the company could claim depreciation in the first year of \$200,000 (20 percent of \$1 million). With the new 50 percent bonus depreciation, the company can deduct \$600,000 in the first year (50 percent bonus depreciation of \$500,000, plus \$100,000, which is 20 percent of \$500,000). The remaining cost can be depreciated over the remaining recovery period.

Note: Most small businesses would not use bonus depreciation for equipment; they would use expensing. But they might use bonus depreciation for qualified leasehold improvements, which are any internal improvements, not including building additions or anything else benefiting a common area, that are placed in service more than three years after the building goes into service. MICKEY MEECE

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