

POWERFUL TAX INCENTIVES

FOR NEW EQUIPMENT PURCHASES EXTENDED THROUGH 2009

The American Recovery and Reinvestment Act extends for purchases made in 2009 increased Section 179 expensing for small business equipment purchases, as well as a 50% bonus depreciation allowance for new machine tools and other equipment ordered and placed in service during 2009.

- ✓ The boost to \$250,000 in Section 179 expensing is extended for new and used equipment purchases made and placed in service in 2009. The amount decreases to \$125,000 in 2010 (indexed for inflation since 2007). Moreover, the cap on how much equipment can be purchased to enjoy the write-off remains at \$800,000 in 2009. In 2010, that amount drops to \$500,000 (adjusted for inflation since 2007).
- ✓ The one-year 50% bonus depreciation means you can write off in 2009 an extra 50% of the cost of your new equipment that you buy and start using in 2009 (* *Qualifying companies can still receive the 50% bonus depreciation if the new equipment they order has a recovery period of 10 years or more, takes more than a year to produce and costs more than \$1 million. Under those circumstances, they are given until the end of 2010 to place the equipment into service.*)

Here's how the new provisions work for you and your customers:

Let's assume that the Peekless KeyHole Co. orders and puts into service a **new** machine tool costing \$100,000. Under the new 50% bonus depreciation, Peekless can **write off 57% of the asset in the first year, as opposed to only 14% had bonus depreciation not been enacted for the 2009 tax year.***

50% BONUS DEPRECIATION

OLD LAW (pre-2008 change and 2009 extension) - \$100,000 New Machine

1st year Total Depreciation = 14% = \$14,000

2009 LAW - \$100,000 New Machine

1st year Bonus Depreciation: 50% of \$100,000 = \$50,000

PLUS 14% regular depreciation on remaining property basis (\$50,000) = \$ 7,000

TOTAL 2009 Deduction on \$100,000 machine = \$57,000

That's 43% More (\$43,000) in Tax Deduction for 2009 than it will be when the law expires at the end of the year.

SECTION 179 BOOST FOR SMALL BUSINESSES

Under the one-year extension, small businesses (whose total equipment purchases in 2009 don't exceed \$800,000) can ALSO expense the first \$250,000 for the 2009 tax year (until 1/1/10). The 50% bonus depreciation can then be taken on the remaining basis of the machine, if it is new.

OLD LAW (pre-2008 change and 2009 extension) - \$400,000 on New or Used Machine

Section 179 Deduction = \$128,000

PLUS 14% regular depreciation on remaining property basis (\$272,000) = \$ 38,080

TOTAL First-year Deduction = \$166,080

2009 LAW - \$400,000 New Machine

Sec. 179 Deduction = \$250,000

PLUS 50% Bonus Depreciation on remaining basis = \$ 75,000

AND 14% on remaining 1st year basis of property = \$ 10,500

TOTAL 2009 Deduction on \$400,000 new Machine = \$335,500

Total 2009 Deduction on \$400,000 **used** Machine = \$271,000
(Bonus Depreciation does not apply to used equipment)

* Examples assume customer is in 7-year asset depreciation class

If you have any questions, contact Liz Nicolson, Government Relations Director, AMT, at enicolson@amtonline.org or 703-827-5229