

Extended Tax Incentives Provide Opportunity to Get More Value from 2009 Machinery Purchases

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The American Recovery and Reinvestment Act of 2009 signed into law in February extends the Bonus Depreciation and Expense Deduction tax incentives passed in 2008. The incentives encourage capital spending, such as production machinery by providing a bonus depreciation on capital purchases for 2009 and by raising deduction amounts.

The accelerated depreciation provision gives companies a 50 percent bonus depreciation on new equipment placed in service during 2009 that would normally be depreciated over many years, which in effect allows companies to realize improved cash flow. All companies can take advantage of the bonus depreciation.

The increased deduction raises the limit on expenses that businesses can deduct from annual income - from \$128,000 to \$250,000 - with a total cap of \$800,000. You may have heard this referred to as Section 179 of the tax plan. Taxpayers must have taxable income to take advantage of the deduction. Deductions cannot be used to reduce taxable income below zero.

Businesses can take advantage of both of these tax breaks, taking a deduction for the first \$250,000 in equipment bought this year, and then the 50 percent bonus depreciation on the rest. Deductions are allowable even if the purchases are wholly or partially financed. These incentives particularly benefit small and mid-sized companies who have an opportunity to make investments that otherwise would be delayed or impossible to make this year.

How the economic stimulus benefits your company:

Capital investments by definition are undertaken with an eye on long-term expansion or upgrades to existing production capacity. If you are considering expanding a plant or making investments in equipment, the stimulus package provides help in paying for it by improving cash flow.