

THE AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009 (ARRA)

There is still time to take advantage of the 2009 American Recovery and Reinvestment Act tax allowances for new capital investments. However, these incentives do expire at the end of the year.

Section 179 Expensing Incentive

The Act allows qualifying businesses that purchase \$800,000 or less in depreciable assets in 2009 to write off the full purchase price up to \$250,000. **Property must be acquired and placed in service by December 31, 2009.**

50% Special "Bonus Depreciation" Incentive

Another change the Act brought to Section 179 is that it offers a one-time "bonus" first-year depreciation of 50% on qualifying equipment. This is after the above depreciation limit is reached. If your equipment purchase exceeds the \$250,000 deduction, you can take the "bonus" 50% depreciation on the rest - this is in addition to normal depreciation.

EXAMPLE OF HOW COMPANIES MAY BENEFIT FROM THE NEW PROVISIONS:

2009 Equipment Purchase	\$400,000
First Year Write-Off (Under the new law, \$250,000 is the Maximum Section 179 write-off)	\$250,000
50% Bonus First Year Depreciation (On remaining value: \$400k-\$250k. \$150k x 50% - \$75k)	\$ 75,000
Normal First Year Depreciation (Depreciation calculated at five years, meaning 20% per year. \$75k x 20% = \$15k)	\$15,000
Total First Year Deduction (\$250k + \$75k + \$15K = \$340K)	\$340,000
Tax Savings on Equipment Purchase (assuming a 35% tax rate. \$340k x .35 - \$119k)	\$119,000

This sample calculation shows how taking advantage of the Section 179 deduction can significantly lower the true cost of the equipment purchased or leased. In the example, \$400,000 in equipment purchased has a true cost of \$281,000. **That's \$119,000 added to the bottom line, which is substantial!**

For more specific details about the ARRA, contact your tax professional or visit the Internal Revenue Service website.