

2008 Economic Stimulus Package

Summary of Increased Depreciation Provisions

The “Economic Stimulus Act of 2008” is generally known for providing additional tax rebates for individuals, but the lesser-known part of this act is a significant increase in business depreciation deductions. The following paragraphs summarize the depreciation provisions of this act.

Increased Section 179 Expense Deduction

In 2007, businesses could immediately expense \$125,000 of purchases of qualifying property. For calendar year 2008, or for tax years beginning in 2008, this write-off has doubled, with the limit now at \$250,000. Qualifying property is defined as new “or” used tangible personal property, known as “Section 1245 property.” Also, in 2007 the phase-out provision reduced the allowable expense dollar-for-dollar for purchases exceeding \$500,000. For 2008, this amount has been increased to \$800,000.

Temporary Bonus Depreciation

In addition to the Section 179 expense, the Economic Stimulus Act of 2008 provides a 50% first-year “Bonus Depreciation” for purchases of qualifying property. Generally, the qualifying property must be new (“not used”), and it must be purchased after December 31, 2007 and before January 1, 2009.

Luxury Autos

This new law allows for bonus depreciation on luxury autos, up to a certain limit. In 2007, the maximum first-year depreciation amount for luxury autos was \$3,060. As a result of this act, if bonus depreciation is claimed the maximum first-year depreciation amount for 2008 is \$11,060.

The following four examples show the increase in the allowable Section 179 and Bonus depreciation expense as a result of this act, as compared to what was allowed in 2007. The following examples assume that the property placed in service is new 5-year Sec. 1245 property.

	Example #1		Example #2	
	2008	2007	2008	2007
Total Qualified Purchase Price	\$ 200,000	\$ 200,000	\$ 600,000	\$ 600,000
Sec. 179 Deduction	(200,000)	(125,000)	(250,000)	(25,000)
Subtotal: Adjusted Basis	-	75,000	350,000	575,000
50% Bonus Depreciation	-	N/A	(175,000)	N/A
Adjusted Basis	-	75,000	175,000	575,000
First Year Regular Depreciation (5-year)	-	15,000	35,000	115,000
Total First Year Expense Allowed	\$ 200,000	\$ 140,000	\$ 460,000	\$ 140,000

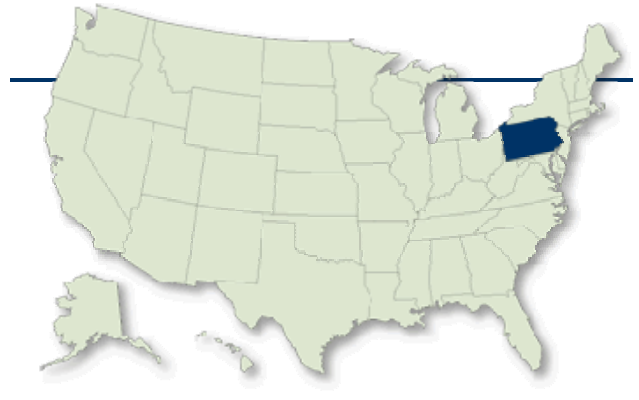
	Example #3		Example #4	
	2008	2007	2008	2007
Purchase Price	\$ 900,000	\$ 900,000	\$ 1,500,000	\$ 1,500,000
Sec. 179 Deduction	(150,000)	-	-	-
Subtotal: Adjusted Basis	750,000	900,000	1,500,000	1,500,000
50% Bonus Depreciation	(375,000)	N/A	(750,000)	N/A
Adjusted Basis	375,000	900,000	750,000	1,500,000
First Year Regular Depreciation (5-year)	75,000	180,000	150,000	300,000
Total First Year Expense Allowed	\$ 600,000	\$ 180,000	\$ 900,000	\$ 300,000

* Note: Pennsylvania and other states may not have adopted the increased Section 179 or bonus provisions. Please contact our office with specific questions.

Pennsylvania 2008 State Tax Summary

Act 32 (SB 1063) - County-wide Collection of the Local Earned Income and Net Profits Tax

This bill consolidates on a county-wide basis the collection of local earned income and net profits taxes. Each tax collection district will have one appointed tax collector. The number of local collectors will be reduced from 560 to 69 beginning January 1, 2010. Municipalities are included in the tax collection district in which its school district is located. Local taxing districts may enter into an agreement with the Department for the exchange of information necessary for the administration and enforcement of local tax collection. Furthermore, the DCED, in consultation with the Department shall develop forms and regulations for local tax collection.



Act 61 (HB 1067) - Educational Improvement Tax Credit

This bill makes Subchapter S corporations and other pass-through entities eligible for the Education Improvement Tax Credit (EITC) program, which allows business firms to receive tax credits for certain contributions made to non-profit, scholarship and education improvement organizations. Any excess credit after applying to the capital stock tax liability will flow through to the shareholders. Business firms applying for tax credits for a second year of a two-year commitment may apply beginning on May 15. Other business firms applying for tax credits may apply beginning on July 1. Pass through entities may apply beginning on July 7. The bill also increases the annual credit limit per taxpayer from \$200,000 to \$300,000 for scholarship and education improvement organizations, and increases the annual credit limit for contributions to pre-kindergarten scholarship organizations from \$100,000 to \$150,000.

Other Federal Tax Notes

Property Tax Deduction for Non-Itemizers

Currently, only individuals who itemize deductions may deduct real property taxes imposed by state and local governments. The new law gives non-itemizers a limited deduction for state and local real property taxes by increasing the amount of their standard deduction by the lesser of:

- 1) the amount of real property taxes paid during the year, or
- 2) \$500 (\$1,000 for a married couple filing jointly).

This temporary deduction is available only for 2008.

More Federal Tax Legislation on the Way...

While not law yet, speculators are betting that there is still more changes to legislation that is expiring this year or that is set to expire. A package of popular—but temporary—tax incentives such as state and local sales tax deduction, teachers' classroom expense deduction, research tax credit, and employer tax credits are all slated to be debated and many are speculating on their extension in some form or another. On another front, lawmakers appear unable at press time to break the deadlock over how to pay for their alternative minimum tax (AMT) "patch," especially now that a major candidate for offsetting the cost of a patch—merchant payment card information reporting—has been included in the Housing Assistance Act.

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