

Construction Dollars and Sense

Tax and Financial Reporting
News and Tools

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Briefly:

→New tax law is great for contractors with more Section 179 write-off and the return of the 50% first year depreciation on new equipment.

The Economic Stimulus Act of 2008 has great benefits for the construction industry with several increases to the current write-offs of equipment and vehicles. Section 179 allows expensing up to \$250,000. The 50% first-year bonus depreciation is back for new qualified property. And vehicles get a break also.

Section 179 write-off, which was originally scheduled at a maximum of \$128,000 for tax years beginning in 2008, with an investment ceiling of \$510,000 in total qualifying purchases, is increased to \$250,000 in write-off and a total overall investment limit of \$800,000. The new law is retroactive for property placed in service in tax years beginning after December 31, 2007. This write-off can apply to new or used equipment. This is a one year provision, and unless Congress extends the benefits with additional new law, the limits return to an inflation-adjusted \$125,000 and overall limit of \$500,000 for 2009 and 2010 and then drop way back to \$25,000 and \$200,000 for 2011.

The 50% bonus depreciation, which was first introduced after the 9/11 attacks through the end of 2004, is back for qualified property acquired and placed in service after December 31, 2007 and before January 1, 2009. This provision, like the increased Section 179 expensing, is only a one year provision. This can apply to most of the equipment of a construction company, but it only applies to new property. The bonus depreciation applies to all qualified equipment unless the contractor elects out for all property or a class of property for which it is otherwise available.

This 50% bonus depreciation also applies to heavy SUVs which have a \$25,000 Section 179 limitation, making the total first year write-off considerably more attractive than previously.

The mechanics of the calculations require the use of the Section 179 write-off prior to the application of the 50% bonus depreciation. As an example, assume that a contractor bought \$500,000 of new equipment in 2008. The Section 179 produces a \$250,000 deduction, then the bonus depreciation is 50% of the remaining \$250,000 or \$125,000, followed by the regular 20% MACRS on the remaining balance of \$125,000 which is \$25,000 for a total first year write-off of \$400,000. The remaining \$100,000 will be depreciated over the remaining MACRS life.

Automobiles and light trucks, which have limited depreciation, receive an additional \$8,000 in the depreciation dollar cap. The regular caps are indexed, and while the 2008 regular cap has not yet been determined, the limitation will go from about \$3,000 to about \$11,000.

Questions or comments? Contact Al Clark at 404-252-2208 or ALClark@SmithAdcock.com.

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