Obama Stimulus Plan Extends Tax Benefit for Equipment Purchases

A provision buried within the Obama administration's nearly $800 billion stimulus package will extend a piece of the earlier Bush administration plan designed to aid small businesses that purchase new equipment.

Section 1201 of the 2009 American Recovery and Reinvestment Act (ARRA) allows additional first-year depreciation of 50% of the purchase cost of new equipment by extending for one year Section 179 of the 2008 Economic Stimulus Act.

Last year, finance experts applauded the provision, saying Section 179 had led to increased sales among equipment manufacturers as customers reaped the benefits of the new tax deduction.

Like the original provision, businesses can write off twice as much equipment acquisition costs as an expense rather than depreciating the purchase over several years, with qualification extending to almost all tangible personal property. If the company exceeds the $250,000 cap, the law features a provisional depreciation bonus that lets it write off up to half of the purchase in the first year, on top of the regular depreciation allowance.

According to information posted on a special website explaining the provision sponsored by Associated Equipment Distributors (AED) the ARRA also extended for one year the significantly increased Section 179 small business expensing levels.

The AED sponsored a teleconference on Feb. 14 to help equipment distributors understand the new rules.

"Without the economic stimulus law, the Section 179 small business expensing limit for this year would have been around $130,000 with a phase-out threshold of roughly $500,000. However, under the ARRA, for 2009 the expensing limit goes to $250,000 and the phase-out threshold to $800,000. Thus, in 2009, a small business can expense up to $250,000 as long as its qualified equipment purchases do not exceed $800,000," AED notes. "For each dollar that total equipment purchases exceed $800,000, the amount that can be expensed decreases by one dollar, so that a company that makes $1,050,000 in total purchases will not be able to expense anything (but could still claim the depreciation bonus)."

Under the rule, the equipment must be new, and must be purchased and placed in service in 2009.

For an example of how the depreciation works in practice, visit the AED sponsored websitehttp://www.depreciationbonus.org/