

## **Generous tax incentives for new equipment purchases in 2008 under new Economic Stimulus Plan.**

The newly enacted bipartisan Economic Stimulus Plan is offering increased deductions and bonus depreciations during the 2008 tax year for small business owners meeting certain eligibility requirements. While the Automation Federation has not issued an official position statement on this particular law, it is being closely monitored as part of the government relations effort.

In a press release issued by the White House on 24 January 2008, the benefits for small businesses are described as follows: “The legislation would save businesses approximately \$50 billion in near-term taxes through a temporary change to the tax code that will allow American businesses that buy new equipment this year to deduct an additional 50 percent of the cost of their investment in 2008. This will encourage businesses to expand and create new jobs now because buying equipment, software, and tangible property this year will dramatically lower their taxes.”

Under the Economic Stimulus Plan, signed by President George W. Bush this past January, small businesses may be able to write off 50 percent off their new machine tools and other equipment by taking advantage of a one-year 50 percent bonus depreciation allowance. Business may still use the regular depreciation on the remaining property balance.

For example, a company in a seven-year asset depreciation class that purchases a new machine for \$100,000 may deduct 50 percent using the new law and the company may deduct an additional \$7,000 (14% off remaining balance). The total 2008 tax deduction in this illustration is \$57,000. Under the old law, total savings would have been \$14,000 (14% off total amount) which equals a savings of \$43,000 in this example.

Qualified companies may also deduct equipment expenses of up to \$250,000 on both new and used equipment under the updated Section 179 small business boost. Under the old law, businesses were allowed to deduct only \$128,000. Finally, the Economic Stimulus Plan has also increased the amount eligible for a write-off from \$510,000 to \$800,000.

For example, a business purchases a new machine for \$400,000. Total savings, including both bonus and regular depreciation, and the \$250,000 Section 179 deduction is \$335,000. Under the old law, savings would have totaled \$166,080 (\$128,000 deduction plus 14 percent depreciation) which is a difference of almost \$170,000.

Businesses which do not purchase new equipment may still take advantage of the Section 179 \$250,000 deduction on used equipment and the regular first-year depreciation but are not eligible for the one-time bonus depreciation of 50 percent. Using the sample above, the total savings in this case would equal \$271,000.

To qualify for the tax advantage, small businesses may not spend more than \$800,000 in total equipment purchases and the one-year 50% bonus depreciation may only be applied towards the purchase of a new piece of equipment.

As the “Voice of Automation,” the Automation Federation will continue to aggressively educate the Members of Congress regarding the importance of automation. For more information, please contact:

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