

Washington Tax Report

Intended to provide an expedited economic stimulus to the economy, on February 7, 2008, Congress passed, and the President is expected to sign, the Economic Stimulus Act of 2008 (the "Act"). While the highlight of the Act is the receipt by eligible individuals in 2008 of a rebate check as described below, the following tax benefits are provided to businesses:

Asset Expense Election

A business that places in service in a taxable year beginning in 2008 depreciable tangible personal property, including off-the-shelf computer software, used in the active conduct of a trade or business may elect under Section 179 of the Internal Revenue Code to deduct up to \$250,000 (increased from \$128,000) of the cost of such property. The \$250,000 maximum amount that can be expensed is reduced dollar-for-dollar if qualifying property in excess of \$800,000 (increased from \$510,000) is placed in service in a taxable year beginning in 2008. For taxable years beginning in 2009 and thereafter, the prior limitation amounts under Sec. 179 continue to apply.

Bonus Depreciation

For both the regular tax and the alternative minimum tax, the first-year depreciation deduction otherwise allowed on certain qualified tangible personal property acquired and placed in service dur-

ing 2008 is increased by 50 percent of the cost of such property.

The deductions provided by the asset expense election and bonus depreciation are illustrated by the following example:

Corporation X purchases and places in service machinery (5-year property) in its calendar 2008 tax year having a cost of \$650,000, which will be subject to the half-year convention. Corporation X will elect to expense \$250,000 under Sec. 179, leaving the machinery with a remaining depreciable basis of \$400,000. Applying the bonus depreciation provided by the Act, Corporation X is entitled to a further deduction in 2008 of \$200,000 (50% of \$400,000), leaving the machinery with a remaining depreciable basis of \$200,000. Standard first-year depreciation for 5-year property under the half-year convention is 20%, providing Corporation X with further depreciation on the machinery of \$40,000. Accordingly, Corporation X is enti-

tled to a total expense and depreciation deduction of \$490,000 in 2008 on its \$650,000 machinery. The remaining \$160,000 cost of the property is recovered after 2008 under otherwise applicable rules for computing depreciation.

Rebate Checks to Individuals

Generally, individuals will receive in 2008 a tax rebate of up to \$600 (\$1,200 in the case of a joint return), determined by their net income tax liability for 2007, in the form of a check from the Treasury Department (or by direct deposit). In addition to these amounts, individuals will receive \$300 for each child under the age of 17. However, the amount of these rebates will be reduced by 5 percent of the amount that the individual's 2007 adjusted gross income exceeds \$75,000 (\$150,000 in the case of a joint return). Individuals entitled to a rebate check will receive their rebate check in 2008 after they file their 2007 tax return.

Material discussed is meant to provide general information and should not be acted on without obtaining professional advice appropriately tailored to your individual needs.

To ensure compliance with Treasury Department regulations, we wish to inform you that any tax advice that may be contained in this communication (including any attachments) is not intended or written to be used, and cannot be used, for the purpose of (i) avoiding tax-related penalties under the Internal Revenue Code or applicable state or local tax law provisions or (ii) promoting, marketing or recommending to another party any tax-related matters addressed herein.