There’s great news for new equipment purchasers . . .

In May 2003, President Bush signed the Jobs & Growth Act into law. The law expands the depreciation bonus enacted in 2002 and allows buyers of new equipment to depreciate (i.e. “write off”) an extra 50 percent of the cost of the equipment for the tax year in which it’s placed in service. The 2003 stimulus law also increased Section 179 business expensing levels. To find out what all this means to you, take a look inside.

7. What is the impact of the Section 179 expensing increases?
Under Section 179 of the Internal Revenue Code, companies with a sufficiently small amount of capital investment can choose to expense rather than depreciate their equipment purchases. The 2003 tax law increased the amount companies can expense from $25,000 to $100,000 and raised the eligibility phase-out cap from $200,000 to $400,000. Under the new law you can now expense $100,000 in equipment purchases as long as your total capital investment for the year doesn’t exceed $400,000. In some cases that can mean a tax savings of $32,000 in the year of purchase. For every dollar your equipment purchases exceed $400,000, the allowable $100,000 expensing level is reduced by one dollar. So for example, if you buy $450,000 worth of equipment, you can only expense $50,000, if you buy more than $500,000 worth of equipment you can expense zero. The new law also indexes the expensing level and phase-out cap for inflation after 2003, so in the future you’ll be able to expense even more.

Please note that the information in this publication is provided by the Associated Equipment Distributors and the Association of Equipment Manufacturers as a public service to equipment purchasers. It should not be construed as tax advice or as a promise of potential tax savings or reduced tax liability. For more information about the depreciation bonus, visit www.depreciationbonus.org, contact your tax professional, or visit the Internal Revenue Service website at www.irs.gov.
What does the depreciation bonus mean to me?

Because you can now write off more of the cost of new equipment during the first year, the depreciation bonus can substantially reduce your tax liability for the year in which you buy equipment. That can, in turn, improve your near-term cash flow.

1. How does the depreciation bonus work?
   
   Let’s say you purchase a new piece of equipment that costs $100,000. Under the depreciation rules that existed before March 2002, you could write off 20 percent (i.e. $20,000) of the cost of the equipment for the year in which you purchased it. Now, thanks to the 2003 Jobs & Growth Act, you can write off 50 percent immediately and you can also write off the 20 percent of the remaining 50 percent of undepreciated value that you were entitled to deduct under pre-2003 rules. For a $100,000 machine with a six-year depreciation life that means you can depreciate $60,000 in the first year for tax savings of $16,000!

2. When do I have to buy my new equipment to take advantage of the depreciation bonus?
   
   In order to qualify for the 50 percent depreciation bonus, the equipment must be acquired after May 5, 2003 and before January 1, 2005. Property put in service between September 10, 2001 and May 6, 2003 still qualifies for the 30 percent depreciation bonus enacted in 2002.

3. Does the depreciation bonus apply to used equipment?
   
   No. The purpose of the depreciation bonus law is to stimulate new equipment purchases. The President and Congress both believe that if new equipment sales are stimulated, manufacturing activity will increase, jobs will be created, the productivity of companies purchasing new equipment will be enhanced, and the U.S. economy will grow.

4. What’s the difference between the depreciation bonus and the investment tax credit?
   
   The depreciation bonus allows you to deduct more from your gross income and thereby reduces your tax liability by reducing your taxable income. A tax credit, on the other hand, is a direct credit against taxes owed.

5. Will the depreciation bonus reduce my overall tax liability?
   
   The depreciation bonus means you can write off more of the cost of new equipment up front, but it doesn’t increase the overall amount you can depreciate. That means you’ll still ultimately pay the same amount in taxes (your tax liability in later years will be slightly increased over what it would have been to make up for your near-term tax savings.) The advantage of the new law is that your tax liability for the purchase year will be reduced and your cash flow will be improved. Ask yourself this: Would you rather have the tax savings in your pocket to invest now or let the federal government hold on to the money for you?

6. Do I have to take advantage of the depreciation bonus?
   
   No. Although many equipment purchasers will want to use the depreciation bonus to improve their near-term cash flow, the law allows you to opt-out and depreciate your new equipment according to traditional depreciation rules.