Using the depreciation bonus to sell equipment and cut your customers’ tax bills . . . while you still can

Presented by

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What is the depreciation bonus?

A temporary special depreciation allowance enacted by Congress during the recent economic downturn to encourage business capital investment (i.e., to encourage businesses to buy stuff).

It allows equipment purchasers to depreciate more of the cost of equipment up front, thereby reducing tax liability.

It expires at the end of this year.
The History


• Sept. 2001: Based on member poll, AED launches lobbying campaign to enact capital investment incentives.

• March 2002: Job Creation and Worker Assistance Act creates temporary 30 percent depreciation bonus.
The History

• Spring 2002: AED takes the lead in promoting depreciation bonus to construction industry. Launches depreciation bonus education initiative and http://www.depreciationbonus.org website. First AED/AEM depreciation bonus brochure released.

• Spring 2003: AED survey of NUCA members finds important link between depreciation bonus and contractor equipment purchasing. Survey results sent to Congress as tax bill debate begins.

• May 2003: Jobs and Growth Act expands depreciation bonus to 50 percent and extends through end of 2004. Sec. 179 expensing levels also increased.
The History

• Summer 2003: AED depreciation bonus promotion efforts re-intensified. New AED/AEM brochure (total distribution to date: 65,000+).

• September 2003: IRS issues depreciation bonus rules.

• Summer 2004: AED launches initiative to remind equipment distributors and purchasers that “the clock is ticking.”

• 1 January 2005: Depreciation bonus expires.
Has it worked?

“All signs point to yes!”

• Gross domestic investment in equipment and software goes from negative to positive after 30 percent depreciation bonus enacted.

• 67 percent of AED/NUCA survey respondents who were aware of the depreciation bonus said it prompted them to buy equipment.

• AED member anecdotal evidence: “The greatest thing since sliced bread.”
How does it work?

The “four hoops”

- Specified type
- Original use
- Acquisition date
- Placed in service date
How does it work?

Hoop 1: Specified type

To be eligible, property must be:

• Depreciable under the Modified Accelerated Cost Recovery System (MACRS) and
• Have a recovery period of 20 years or less.

Generally, equipment sold by AED members will qualify.
How does it work?

Hoop 2: Original use

Depreciation bonus applies only to new property. (Remember that Congress wanted to encourage business investment in new capital goods.)

To qualify for 50 percent depreciation bonus, “original use” of equipment must commence with the taxpayer claiming the exemption after 5 May 2003.
How does it work?

Hoop 3: Acquisition date

Property must be acquired after 5 May 2003 and before 1 January 2005.
How does it work?

Hoop 4: Placed in service

Property must be placed in service before 1 January 2005.
To put it simply . . .

To qualify for the 50 percent depreciation bonus, the equipment must be new and must be acquired and placed in service after 5 May 2003 and before 1 January 2005.
Section 179 expensing

Jobs and Growth Act increased the amount a company can expense from $25,000 to $100,000 and raised the eligibility phase out cap from $200,000 to $400,000.

If your total capital investments for the year are less than $400,000 you can expense $100,000.

Great for smaller equipment sold to smaller companies because it’s a complete write-off. Also, applies to both used and new.

Although higher expensing levels technically expire at the end of next year, they are intended to be permanent and will likely be extended. They also increase with inflation.
Frequently asked questions

What’s the real advantage of bonus depreciation?

Depreciating more of the cost of equipment in the first year reduces the purchaser’s taxable income for the year and reduces their tax bill.

But note: If you depreciate more now if means you can depreciate less in the future. That means your tax bill in the out years may be higher because you have less to depreciate.
Frequently asked questions

Does the depreciation bonus apply to rental equipment?

If a distributor buys equipment for its own rental fleet, the distributor may claim the depreciation bonus.

IRS regulations issued in Sept. 2003 clarify that a purchaser in a rent-to-own transaction can claim the depreciation bonus if:

• They are first user of the equipment and
• If the purchase occurs within three months of the date on which the equipment is first put in service.
Frequently asked questions

Does a customer have to claim the depreciation bonus?

No. The law allows customers to opt out and depreciate according to normal depreciation rules and schedules.
Frequently asked questions

Will the depreciation bonus be extended?

Probably not (odds 20:1 against)

Reasons: Economy is recovering. Money is tight in Washington. Depreciation bonus is powerful medicine (put it back in the medicine cabinet for next time).
Themes to sound to customers

If you’re having a good year, buying equipment and taking advantage of the depreciation bonus can help cut your tax bill.

No matter what kind of year you’re having, make sure you know what your tax situation is. Your book situation may be different from your tax situation.

Don’t forget about the estimated tax payment impact on cash flow. Depreciation bonus can help push out tax liability.
Themes to sound to customers

The clock is ticking. To qualify, you must acquire and put in service by 1 January 2005.

Purchasers should place orders now. Dealer stocks are already tight and we expect an upsurge in demand towards the end of the year as purchasers rush to take advantage of the depreciation rules before they expire.
Other issues

• Issues for distributors

• Issues for manufacturers

• Issues for customers

Email questions to caklein@aednet.org or click Netspoke “Q&A” icon
For more information . . .

AED’s online clearinghouse:
http://www.depreciationbonus.org

Site provides PDF version of AED/AEM brochure, articles, official explanation of law, IRS regulations, “and much, much more.”
The Panelists

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