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The return of bonus depreciation

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The Economic Stimulus Act of 2008 was passed by the House of Representatives and the Senate on February 7th. By now, many taxpayers have received their allocated stimulus payment, deposited the checks, and moved on with their lives. However, the act includes several business incentives involving depreciation that will last for the next few years.

The main business incentive contained in the bill is the ability to utilize Section 179 to expense up to \$128,000 of qualifying property placed in service for the current taxable year, on purchases of \$510,000. In addition, the act allows for additional first year bonus depreciation equal to 50% of the adjusted basis of qualified property. This provision is very similar to the MACRS bonus depreciation that was available several years ago.

Generally, the concept of asset expensing and bonus depreciation applies to machinery and equipment. However, one of the less publicized incentives in the act, is that the bonus depreciation applies to (among other things), qualified leasehold improvements defined in section 168. A qualified leasehold improvement must be placed in service in 2008, is made pursuant to a lease agreement, and has made space to be occupied by the lessee or sub lessee. In addition, the improvement must be made to the interior portion of a non residential building. Finally, the improvement cannot be made to enlarge a building, add a structural component, install an elevator or escalator, or benefit a common area.

Assuming the improvement qualifies under the above rules, 50% of the costs can be expensed in the year of construction with the balance being depreciated over 15 years. Since the language of the bill specifically includes assets placed in service in 2008, fiscal year entities whose years began in 2007, can utilize this bonus depreciation on their 2008 acquisitions.

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