

How Small Businesses Benefit from the Economic Stimulus Act

By Doug Sweazey, CPA



In light of a struggling economy, collapsing financial giants, and the well-documented credit crisis, this year's Economic Stimulus Act is big news. The move by the White House to inject capital back into the system is most famous for its rebates to individuals, but businesses will see the benefits as well.

Those pieces of the Act come in the form of increased asset expense allocation and bonus depreciation clauses, which will ease the pain of spending. The bare facts for the two areas are increased asset expense allocation and bonus depreciation allowance in 2008.

Increased Asset Expense Allocation

The Economic Stimulus Act doubles the current small business expensing limit from \$128,000 to \$250,000. This provides business owners with an immediate deduction for the entire cost of certain investments made in their business, such as purchasing new equipment. This applies only to business owners who invest less than \$800,000 in their business this year.

- Increases the amount of capital equipment purchases that can be expensed as deductions on 2008 corporate tax returns from \$128,000 to \$250,000.
- Applies to depreciable tangible personal property placed in service in 2008.
- For other than calendar-year taxpayers, additional limitations apply to purchases eligible for increased expensing during 2008. If this applies to clients, CPAs should be sure they are aware and take the time to walk through the limitations with them.
- Includes off-the-shelf computer software.
- Property must be used in the active conduct of a trade or business.
- Must be newly-purchased property.
- The \$250,000 maximum amount that can be expensed is reduced dollar-for-dollar if qualifying property is in excess of \$800,000 (increased from \$510,000).
- Enhanced expense amounts will expire at end of 2008.

Bonus Depreciation Allowance in 2008

Congress is also attempting to encourage business investment by providing a valuable tax break in the form of bonus depreciation. The bonus depreciation incentive allows all qualifying taxpayers to claim an immediate 50 percent deduction for certain qualifying depreciable property acquired and placed in service in 2008.

- Allows additional first-year depreciation of 50 percent of the purchase cost.
- Applies to purchases of tangible personal property (including construction, mining, forestry and agricultural equipment) with a depreciation period of 20 years or less.
- Equipment must be new.
- Equipment must be purchased and placed in service in 2008.
- Not applicable if a binding purchase contract existed prior to January 1, 2008.
- Allowed for both regular and alternative minimum tax purposes.
- This is completely discretionary – the taxpayer does not need to claim the depreciation bonus.
- Depreciation bonus will expire at end of 2008.

The package should not be interpreted as a cure-all attempt for unstable businesses or an excuse to pile up debt; on the contrary, this is designed to give a boost to enterprises that are ready to expand.

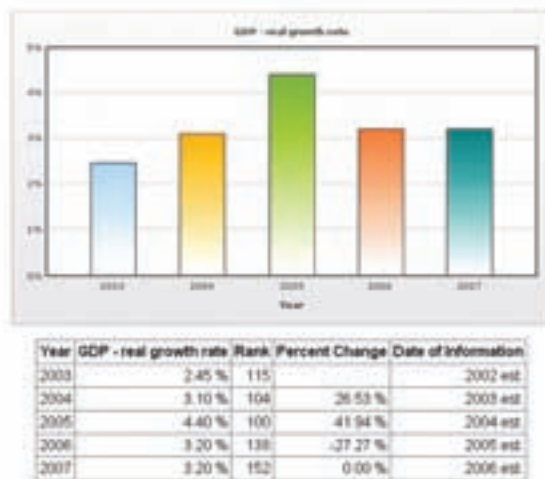
The Act has precedent, and from the small business perspective it has worked before. When the economy sagged after 9/11, President Bush put forth a similar initiative that took effect in 2003. That provision allowed companies to write off \$75,000 in expenses, tripling the previous cap. As the Associated Press reported in January of 2003... “the White House estimated that 23 million small business owners would receive an average tax cut in 2003 of \$2,042... The administration’s hope is that giving such breaks to entrepreneurs and other smaller companies would lead them to expand, adding jobs in their own shops while boosting the broader economy with demand for products.”¹

Did it pay off? *The Wall Street Journal* reported that it did, as by the end of 2004 the newspaper followed up by writing that the “Dow Jones Industrial Average has dramatically reversed course... hitting its highest level in 3½ years amid hopes that the stable economic growth that prevailed in the 1990s has returned.”²

The story continued, “After growing a little less than 4% this year, economic output could gain an additional 3.5% next year, according to a panel of 55 private-sector economists surveyed by *The Wall Street Journal Online*. These same economists call for consumer-price inflation to be rising at something like 2.3% next May, down from the current rate of about 3%. Stock analysts, meanwhile, are forecasting corporate-earnings gains of 7% to 10% next year, close to the historic average.”

Such articles represent an optimism that is crucial to inspiring faith in enterprise. The role played by small businesses that responded to the 2003 package may have been minor, but there is no doubt that the overall economic injection helped improve the environment. While the surge was not as robust as the *Wall Street Journal* predicted, the economy did stabilize in subsequent years. According to the CIA World Factbook, the GDP was up 3.10% in 2004 and 4.40% in 2005, before slipping back to 3.20% in 2006 and 2007, leading to today’s flat environment (Fig 1).

Fig. 1. U.S. GDP 2003-2007



The short-term goals of the 2008 effort are similar, as the White House looks to motivate spending through these business incentives. The expensing limitations have been increased so that even larger companies can take advantage of this benefit.

On a macro level, the Act may in the end help to give the economy some breathing room, as it did five years ago. The micro level is of more immediate concern, as CPAs must assess which of their clients are in a position to take advantage. If companies meet the criteria and wish to act, the clock is ticking: lead time to order, ship, and install large purchases can extend for months, and equipment must be in place by year-end for the benefits to take effect. CPAs should encourage clients with relevant profiles to act before the opportunity slips away.

Doug Sweazey, CPA is a partner at MFA – Moody, Famiglietti & Andronico. He can be reached at 978.557.5306 or dsweazey@mfa-cpa.com.

¹ Jennifer Loven, “Bush pitches small business tax relief at flag manufacturers,” *Associated Press Newswire*, January 9, 2003.

² E.S. Browning, “Dow Industrials Hit 3 1/2-Year High Amid Hopes Economy Is Just Right,” *Wall Street Journal*, Dec 22, 2004.



M | F | A

LIFE IS MORE THAN WORK.

BEST small & medium COMPANIES to work for in AMERICA

2007

Presented by Great Place to Work[®] Institute and Society for Human Resource Management

M | F | A

Moody, Famiglietti & Andronico, LLP

1 Highwood Drive. Tewksbury, MA 01876
(978) 557-5300 | www.mfa-cpa.com