

## Section 179 Expense Limit Temporary Increase

For 2008 only, the Section 179 deduction is increased to the following amounts:

- Expense limit will be \$250,000
- SUV expense limit will be \$25,000
- Deduction phase-out begins when investment in Section 179 property exceeds \$800,000

Unless Congress extends the limits again, the 2009 Section 179 expense limit will go back to \$125,000, adjusted for inflation, and the investment limit will go back to \$500,000, adjusted for inflation.

## Special Depreciation Allowance for Property Acquired During 2008

The special depreciation allowance under Section 168(k) is back for 2008 only, as follows:

- A taxpayer is allowed to claim a special first-year depreciation allowance of 50% for new property acquired and placed in service during 2008.
- The 30% special depreciation allowance does not apply for 2008.
- The 50% special depreciation allowance is in addition to regular depreciation and any Section 179 deduction claimed.
- The ordering rules still apply.

**Example.** Ken purchases and places in service heavy construction equipment (5-year property) during 2008 for a total cost of \$400,000. Ken wants to claim the maximum depreciation allowed for 2008. Assume half-year MACRS depreciation is allowed. The combination of the Section 179 deduction, the 50% special depreciation allowance, and regular MACRS is figured as follows:

Maximum Section 179 deduction for 2008 only.....	\$250,000
\$400,000 minus \$250,000.....	\$150,000
\$150,000 × 50% special depreciation allowance.....	\$75,000
\$75,000 remaining basis × 20% regular MACRS.....	\$15,000

Total depreciation allowed equals \$340,000 (\$250,000 + \$75,000 + \$15,000). The remaining basis of \$60,000 is recovered during the remaining life of the property using regular MACRS.

**Qualified property.** Property that qualifies for the 50% special depreciation allowance includes the following:

- MACRS property with a recovery period of 20 years or less.
- Computer software that is not a Section 197 intangible asset.
- Qualified leasehold improvement property.

**Original use.** The original use of the property must begin with the taxpayer. This means the PURCHASE OF USED PROPERTY DOES NOT QUALIFY.

**Acquisition and placed in service dates.** The property must be acquired and placed in service after December 31, 2007 and before January 1, 2009. There cannot be any written binding contract for the acquisition of the property in effect before January 1, 2008. If the taxpayer manufactures, constructs, or produces the property for the taxpayer's own use, the manufacturing, construction, or production must begin after December 31, 2007 and before January 1, 2009.

**Alternative minimum tax.** The 50% special depreciation allowance is deductible for both regular tax and AMT. If the 50% special depreciation allowance is used, there is no AMT adjustment required for any depreciation figured on the remaining basis of the property.

**Elect out.** Taxpayers can elect not to claim the 50% special depreciation allowance.