EQUIPMENT TECHNOLOGIES

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NEWS RELEASE

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NEW PROGRAM DEPRECIATION PROGRAMS

MOORESVILLE, Ind., September 1, 2010—Equipment Technologies has been monitoring the progress of the Small Business Jobs Act (SBJA) for several months. Signed into law on Monday, September 27, it offers extra incentives for end-of-year purchases of equipment.

Congress has raised the threshold on **Section 179** expenses from the current limit of $250,000 to $500,000 for tax years beginning in 2010 and 2011. Section 179, which allows for the expensing of capital equipment in the year of purchase, applies to new and used equipment. In the past, this deduction phased out as eligible purchases exceeded $800,000, but the new threshold was raised to $2 million.

The new law also revived the popular **50% Bonus Depreciation** rule which applies only to new equipment. The new legislation retroactively extends the 50% bonus back to qualified property acquired and placed in service since Jan. 1, 2010, but before Jan. 1, 2011. The Bonus Depreciation can be used after the Section 179 is exhausted or in combination with Section 179.

Consider this example: Farm X purchases and places in service machinery (5-year property) in its calendar 2010 tax year having a cost of $650,000. Farm X will elect to expense $500,000 under Sec. 179, leaving the machinery with a remaining depreciable basis of $150,000. Applying the 50% Bonus Depreciation, Farm X is entitled to a further deduction in 2010 of $75,000 (50% of $150,000), leaving the machinery with a remaining depreciable basis of $75,000, or $15,000 per year. Accordingly, Farm X is entitled to a total expense and depreciation deduction of $590,000 in 2010 on its $650,000 machinery. The remaining $60,000 cost of the property is recovered after 2010 under otherwise applicable rules for computing depreciation.

Example of Section 179 and 50% Bonus Depreciation in action:

2010 Equipment Purchases:	$ 650,000
First Year Write Off: (Under the new law, $500,000 is the maximum Section 179 write-off in 2010)	$ 500,000
Bonus First Year Depreciation: (On remaining value: $650k-$500k = $150k x 50% = $75k)	$ 75,000
Normal First Year Depreciation: (20% depreciation in each of 5yrs $75k x 20% = $15k)	$ 15,000
Total First Year Deduction: ($500k + $75k + $15k = $590k)	$ 590,000
Tax Savings: (Assume 35% tax rate. $590k x 35% = $206.5k)	**$ 206,500**
Total Equipment Cost: ($650k less all tax deductions of $206.5k)	**$ 443,500**

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