

Economic Stimulus Plan Expands Depreciation and Boosts Your Cash Flow

Government stimulus plan encourages midrange technology investments

By [Vicki Powers](#), a contributor to Momentum, the midsize business center newsletter

While consumers get rebates, the U.S. effort to spur spending provides businesses with incentives through expanded tax benefits.

In summary:

- **Midsized companies already planning investments for this year will realize better cash flow.**
- **Depreciation is accelerated with a first-year bonus of 50 percent.**
- **Organizations should consider moving up purchases planned for 2009.**

The Economic Stimulus Act signed by President Bush in February promotes business investments in 2008 by significantly expanding depreciation and one-time expensing options for qualified capital expenditures. This provides significant incentives for organizations to buy technology platforms and applications.

What does this mean for midsize companies and their bottom line?

Those already planning to make a substantial technology purchase will receive a boost to cash flow, according to Matthew Shapiro, a professor of economics at the University of Michigan. But organizations probably won't make many additional investments, he says, because plans are basically in place.

"The main effect is not to do additional investment but to get better cash flow results from investments that are already going to be undertaken," Shapiro says. "And that is substantial."

In the past, companies using a five-year schedule would claim depreciation of 20 percent the first year. For a company spending \$1 million to replace all its computers and servers, that's \$200,000. With the new bonus depreciation provision, companies can deduct 50 percent (\$500,000) and 20 percent of the remaining balance (\$100,000), for a total of \$600,000 in the first year. The remaining cost can be depreciated over the recovery period.

Taking advantage, not changing behavior

Benjamin Harris, a senior research associate at the Tax Policy Center, a joint venture of the Washington, D.C.-based Urban Institute and Brookings Institution, says surveys reveal that one in 10 companies pay attention to these types of tax cuts and act on them. He says it's a low proportion of companies that change their behavior because of such a stimulus policy, but a higher proportion will take advantage of it.

For example, if a business planned to buy \$500,000 worth of equipment this year, it could expense more of the purchase, which essentially makes the purchase less expensive. The company would go ahead and take the higher expensing on its tax forms, Harris says, but it wouldn't necessarily purchase more than it had planned.

Microsoft's Bill Liddell believes midrange enterprises benefit from stimulus packages such as this because they can defer the cost of an implementation. Organizations can spread the cost and match it in the budget over the useful life of the equipment. He says it's easier to pay as you go and get these credits in the first year.

"Often the first year is heavy on cost, and organizations don't see productivity immediately," says Liddell, managing director, North America for Microsoft Financing. "With this plan, companies can have costs

deferred over subsequent periods and streamline their budget and cash flow. From a return-on-investment standpoint, it's a much crisper, cleaner, and more efficient use of their capital."

Businesses tend to respond a couple ways with these types of stimulus packages, says Liddell. First, they tend to plan for broader technology deployments and not parcel out deployment over several years. Second, they tend to move their purchasing timelines forward.

Future outlook

Shapiro notes that when a similar policy was put in place several years ago, it reduced corporate tax liability by about one-fourth. He says organizations will have to figure out if it's to their benefit to take advantage of these provisions.

"If a firm is contemplating a fairly large investment, there is a substantial benefit to do it this year rather than next year," Shapiro says. He recommends companies examine their capital spending plan on a multiyear basis to see if any purchase planned for 2009 should be moved to 2008 in order to capitalize on the more generous tax treatment.

Depreciation bonus at-a-glance

- The Economic Stimulus Act allows additional first-year depreciation of 50 percent of the purchase cost.
- The depreciation bonus helps businesses that buy equipment this year cut their 2008 tax bill.
- The bonus applies to purchases of tangible personal property with tax lives of 20 years or less, among other things.
- Equipment must be purchased and placed in service in 2008.

Section 179 expensing at-a-glance

- The Economic Stimulus Act nearly doubles the Section 179 expensing limit to US\$250,000 from US\$128,000.
- Companies can expense up to US\$250,000 in purchases as long as they don't spend more than US\$800,000.
- New and used equipment is eligible for expensing.
- The expensing limit can be combined with the depreciation bonus.