



Sage Software: The Economic Stimulus Package of 2008

In February 2008, Congress enacted the Economic Stimulus Package of 2008 (**HR 5140 - Pub. L. No. 110-185, 122 Stat**). This legislation is designed to make increased spending by business more attractive for the 2008 tax year. This legislation provides companies with incentives to purchase assets such as software, and improve their business. By understanding the full benefits provided by the passage of this act, and taking full advantage of them in 2008, companies can reduce the cost of qualifying property by purchasing it and placing it in service in 2008.

The key components of this legislation that focus on business include an increase in the 21 U.S.C. §179 ("Section 179") maximum deduction, an increase in the maximum amount of qualifying property that can be placed into service during the 2008 tax year, a bonus depreciation, and an increase in the "Luxury" auto depreciation.

The "Bonus" provisions of the Act are only applicable to assets purchased and placed in service during the 2008 calendar year, while the Section 179 deductions are applicable to the 2008 tax year – companies that have tax years that do not match the calendar year can only take advantage of both of these tax incentives at the same time during the portion of their 2008 tax year that falls within 2008.

Section 179 Limits

Historically, the Section 179 deductions have favored small businesses. However the temporary increase in the maximum deduction from \$128,000 to \$250,000 and the increase in the maximum qualifying property that can be placed in service were designed to allow the benefits to be shared by more companies. The amount a company can deduct is reduced dollar-for-dollar for the amount the value of qualifying property exceeds \$800,000. For example, if a company purchases \$900,000 worth of qualifying property in 2008, the maximum deduction would be \$150,000. (\$900,000 - \$800,000 would be \$100,000. \$250,000 - \$100,000 would be \$150,000).

It is often mistakenly thought that "off the shelf" computer software is not considered qualifying property. Quite the contrary; since 2002, Section 179 has included software in the list of qualifying property, but this provision is to be phased out after 2010. The vast majority of software solutions provided by Sage Software are considered "off the shelf" by IRS definitions: (1) Readily available for use by the general public, (2) subject to a non-exclusive license, and (3) has not been substantially altered – any modifications may not exceed the greater of 25% of the software price or \$2,000.

Example of "substantially altered": If you purchase a \$50,000 software solution, modifications would have to exceed \$12,500.

This report highlights the depreciation changes in the Economic Stimulus Act of 2008 that affect taxpayers. It is informational only and not meant as accounting or tax advice. Exceptions and special provisions are not covered, so you should consult your accounting and tax professionals for advice specific to your situation.

KEY COMPONENTS OF THE ACT

SECTION 179 LIMITS

The maximum deduction available for qualifying assets is increased from \$128,000 to \$250,000

The overall investment limits for qualifying property is increased from \$510,000 to \$800,000

BONUS DEPRECIATION

A 50% bonus depreciation deduction of the asset basis of qualifying property that is purchased and placed in service in 2008

"LUXURY" AUTO LIMITS

A temporary increase in "luxury" automobile limits resulting in a maximum allowable depreciation of \$10,960 for cars and \$11,160 for vans and trucks

Bonus Depreciation

Another key component of the Economic Stimulus Act of 2008 is a 50% bonus depreciation for qualifying property placed in service during the 2008 calendar year. This bonus depreciation is in addition to the standard depreciation that can be taken and is calculated on the adjusted basis over the life of the asset according to the Modified Accelerated Cost Recovery System (MACRS).

Impact Scenario:

Company purchases software solution for \$10,000

Bonus Depreciation: \$5,000

Asset Life: 3 years

Straight-Line method using Full-month convention (SF)

Standard Depreciation: $(\$5,000 / 3 \text{ Years} / 36 \text{ months}) \times 12 \text{ months}$ would be \$1,667

Total Depreciation: \$6,667

Tax Savings in 2008 (Assuming 30% rate): \$2,000

Maximizing the Tax Benefits

Careful planning will ensure that companies can write-off a larger portion of their asset purchases. By analyzing the timing of asset purchases, and determining whether to take Section 179 and/or the 50% bonus depreciation, companies will be able to maximize the benefits available.

Sage Software

For more than 30 years, Sage Software has assisted small- and medium-sized businesses with a wide range of business management applications and services. Currently supporting more than 2.8 million customers in the U.S. and Canada, the sole focus of Sage Software is to provide business management software and services, including applications that meet a full scope of business requirements, such as accounting, customer relationship management, contact management, human resources, warehouse management, specialized industry needs, among many others.

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