

Economic Stimulus Payment Q&As: Business

Updated July 17, 2008

Following are answers to questions regarding the economic stimulus payments. Scroll down the list for business-related questions or choose from one of the following categories:

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Business

Q. Am I entitled to the business portion of the stimulus package even if my adjusted gross income exceeds the threshold that phases out the basic credit?

A. The individual and business parts of the legislation are separate and have different qualifications.

Q. What types of acquisitions will qualify for the 50 percent depreciation deduction? I am specifically wondering if farm buildings will qualify for this accelerated depreciation.

A. To qualify for this deduction, property must have a recovery period of 20 years or less. Farm buildings normally qualify since they have a general depreciation recovery period of 20 years. The alternative recovery period of 25 years does not have to be considered unless the property is required to be depreciated under the Alternative Depreciation System.

Q. What changed in 2008 for businesses under the Economic Stimulus Act?

A. [Changes](#) include increased section 179 limits and special depreciation allowance for certain property. Note: the linked page reflects both 2007 and 2008 changes.

Q. What effect does the Stimulus Act have on section 179 depreciation?

A. The Act changed two things: it increased the amount of the 179 depreciation deduction and it raised the phase-out amount. Without the new law, the 179 depreciation deduction limit in 2008 would have been \$128,000. It's now increased to \$250,000. The phase-out rule reduces the allowable 179 depreciation deduction if the amount of section 179 property you place in service exceeds a set amount for the year. That amount would have been \$510,000 for 2008 but the Act increased it to \$800,000.

Q. What is 50 percent special depreciation?

A. The 50 percent special depreciation is for new, tangible assets purchased and placed into service in 2008. For these assets, a taxpayer is entitled to depreciate 50 percent of the cost or other basis during the year the asset is placed into service. The remaining cost or other

basis would be depreciated over the normal life of the asset.

Q. Is 50 percent special depreciation new in 2008?

A. Special depreciation was originally in effect from Sept. 11, 2001 through Dec. 31, 2004. After 2004 special depreciation was available for only the Liberty Zone in New York and the Gulf Opportunity Zone. The Stimulus Act again makes special depreciation available throughout the entire United States.

Q. Can 50 percent special depreciation be used along with other types of depreciation?

A. Yes, it is possible for an asset to qualify for up to three different types of depreciation at the same time in the year the asset is placed into service. An asset can qualify for section 179 depreciation, 50 percent special depreciation and a regular depreciation method such as modified accelerated cost recovery system or MACRS simultaneously.

Q. Can you provide an example of how these three depreciation types can be used in conjunction with one another?

A. To illustrate, let's assume a small business owner paid \$400,000 for a qualifying asset — equipment, for instance — and placed it into service in 2008.

- First, he applies the section 179 depreciation provision to deduct the new maximum 179 depreciation deduction, or \$250,000. That leaves \$150,000 that has not yet been depreciated.
- Next, he takes the remaining \$150,000, and applies the 50% special depreciation for an additional deduction of \$75,000.
- That leaves the other 50 percent, or \$75,000, to which he can apply MACRS. If the asset is a five year asset, he would be able to deduct 20 percent of the remaining \$75,000 cost or basis, for an additional \$15,000 deduction.

Using all three of these tax provisions would produce a \$340,000 deduction in 2008 for an asset that cost \$400,000.

Q. What if I do not want to use special depreciation?

A. If you choose not to use special depreciation, you must elect out of it in writing on your tax return.

Q. Is special depreciation allowed against the Alternative Minimum Tax?

A. Yes, special depreciation is allowed against both regular tax and Alternative Minimum Tax.

Q. Do all states follow the federal depreciation rules?

A. No. From Sept. 1, 2001 through Dec. 31, 2004, twenty-five states did not follow the federal special depreciation rules. Check with your state taxation agency or your accountant to see if your state is following the federal special depreciation rules.

Q. Is there a new depreciation and amortization form for fiscal year filers?

A. Yes, [Form 4562-FY](#) and [instructions](#) are now available.

Q. What property qualifies for special depreciation?

A. See the 2008 section of the [Depreciation and Section 179 Expense](#) information for examples of qualifying property, determining tests and property that does not qualify.

Related Items:

- [FS-2008-21](#), Business Provisions of the Economic Stimulus Act of 2008
- [IR-2008-58](#), IRS To Issue Guidance on Special 50-Percent Depreciation Allowance
- [IR-2008-22](#), 2008 Economic Stimulus Act Provides Tax Benefits to Businesses