Capture a one-time tax savings

By **JOHN VOGEL**

Key Points

- The ESA almost doubled depreciation limits, but only for 2008.
- Farms projecting high 2008 net returns have the most to gain.
- Think maximum profits and cash flow, not just tax reduction.

EVERY U.S. taxpayer knows about the tax rebate checks. Yet the Economic Stimulus Act of 2008 also almost doubled equipment deduction limits, but only for 2008.

Ag businesses projecting sizable net returns may want to seriously consider the tax savings. For 2008, the Section 179 expensing election is increased to $250,000, up from last year's $125,000, explains Donald Breece, Ohio State Extension farm management specialist.

The ceiling for qualified investment is now $800,000, up from $500,000. Beyond that limit, expensing is reduced dollar for dollar.

First-year bonus depreciation is back, much like it was following 9/11, adds Breece. It's 50% of the adjusted basis of qualified property purchased before year-end. You have to elect out of it to not take it.

179 expensing

Farms facing sizable 2008 net returns may benefit the most from the enhanced 179. Mike Evanish, manager of Pennsylvania Farm Bureau's MSC Business Services, notes the 179 expense is limited to net income before the 179, plus a few add-ons. "It's legal to take," assures Evanish. "But taking too much Section 179 expense if the underlying asset isn't paid for can cause future cash-flow problems."

Section 179 can be used for new and used qualifying assets. Lessors (owners) in the business can take it, says Evanish. Lessees cannot.

Section 1245 properties [most depreciable property other than buildings and land improvements] qualify, he adds. This would be properties having depreciable life requirements of three, five, seven and 10 years.

"Paying cash or financing makes no difference. But it's good business practice to match your write-off period with your loan repayment period."

Bonus depreciation

Examples of properties that qualify for bonus depreciation include:

- Tangible property depreciated under the modified accelerated cost recovery system with a recovery period of 20 years or less. That includes machinery and equipment, machine sheds, grain bins, even milking parlors.
- Leased improvement properties.
- Replacement heifers (new breeding stock). They qualify as original-use properties. Cows don't.

Again, all must be placed in service on or after Jan. 1, 2008, and before Jan. 1, 2009. You can't buy and dispose of it or convert it to personal use in the same tax year.

Lid still on vehicle depreciation

Even with 100% business use, the IRS limits auto, truck and van deductions. Total depreciation deduction [including 179] for a passenger automobile is $2,960 ($10,960 if the special depreciation allowances applies). Trucks and vans max out at $3,160 ($11,160 with the special depreciation allowance). The new law doesn't alter the $25,000 section 179 expense limit imposed on sport utility vehicles.

You can do a quick calculation of your cost after the tax savings with an online calculator at *www.crestcapital.com/tax_deduction_calculator*.

"Deductions for depreciation and agriculture's investment costs have grown to the point that the old, simple thinking has to change," warns Evanish. "No longer can you 'manage a business' to pay no taxes. This thinking can lead to big problems.

"Too much time and energy is spent worrying about taxes. Not enough time is spent focusing on maximizing profits and cash flow," he says.