

# Economic Stimulus Act Offers Big Benefits to Contractors

Although a great deal of media attention has been given to the 2008 Economic Stimulus Act and how it benefits individual taxpayers, less information has been shared about the tax incentives that this law delivers to businesses.

For construction companies, there are some very useful provisions within the Act, primarily around depreciation deductions for new software and equipment purchases. But time is running out for you to take advantage of them: Purchases must be made by December 31, 2008 to qualify for the maximum depreciation allowances.

To help you sort through the specifics of the Economic Stimulus Act, Construction Partner talked with Kevin Thurman, a CPA with ThomasYork, LLP, a California-based CPA firm that specializes in construction.

According to Thurman, there are two parts to the Stimulus Act's depreciation features. Part one involves revisions to Section 179, a longstanding tax law that allows businesses to deduct a specified amount of equipment purchases each year. Part two involves bonus depreciation on equipment purchases made in 2008.

## Section 179 Depreciation

Under Section 179, businesses can expense up to \$250K of new and used asset purchases made in 2008. (This is double the 2007 deduction of \$125K.) Qualified purchases include equipment, machinery, furniture and even construction-specific software (as well as the hardware needed to run that software).

However, Section 179 isn't without limits. "One caveat of this tax benefit," says Thurman, "is that you can't buy more than

\$800K in qualifying purchases without losing some of the benefit." Making multiple heavy equipment purchases, for example, would likely put a contractor above the \$800K limit and they would forfeit that initial \$250K deduction. On the other hand, contractors that buy \$250K or less in qualifying purchases would get to deduct those purchases in full on their 2008 tax return.

## Bonus Depreciation

The new bonus depreciation allowance is where the Stimulus Act gets interesting. "The bonus depreciation provides an additional 50 percent deduction on new purchases that can be taken in conjunction with Section 179," explains Thurman. (The bonus depreciation is available even if purchases exceed the Section 179 \$800K limit.) Here's how the bonus depreciation works:

*Let's say you make software and equipment purchases in 2008 totaling \$750K.*

*The first \$250K of depreciation deduction comes right off the top, which leaves \$500K remaining of your original purchases.*

*You're now allowed to deduct an additional 50 percent, which would give you another \$250K in deductions.*

*In addition, you're also allowed to take your regular multi-year depreciation deductions if applicable. In this example, regular depreciation would apply to the final \$250K.*

"The end result is an incredible tax deduction," states Thurman. "If you're considering purchases in excess of

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\$800K, even though you won't be able to take advantage of Section 179's \$250K deduction, you may want to go ahead with those purchases in 2008 because of the 50 percent bonus depreciation benefit you'll get up front."

## Software and Other Purchases

Although software purchases are typically depreciated over three years, the 2008 tax provisions make this an especially good year to upgrade your construction accounting solution to a program such as Construction Partner, especially if you've been struggling with the lack of functionality in generic software like QuickBooks®. In most cases, you'll get a 100% tax deduction in 2008 for your software purchase and hardware upgrades.

Other business benefits of the Economic Stimulus Act involve vehicle purchases and leasehold improvements. The new tax laws provide some incentives around the purchase of "luxury" automobiles and "heavy" vehicles. (Sport utility vehicles are in a tax class by themselves.) In addition, if you lease your office space, you might be eligible for tax breaks if you make improvements to that space.

## Special Cautions for Contractors

Before you run out and stimulate the economy with your new purchases, however, you need to consider what impact these purchases might have on your operations. Issues to consider include:

**Bonding:** "A construction company is very dependent upon its ability to secure bonding," explains Thurman. "One of the major things that a surety

company will look at is your cash flow. You need to balance how much cash you spend or borrow to buy new equipment with what you leave in reserve. Depleting your cash on hand or having too many liabilities on your balance sheet can hurt your bonding capacity."

**Fiscal Year:** "Bonus depreciation applies to purchases made from January 1 through December 31," cautions Thurman. "Even if your fiscal year is March to March, for instance, to get the maximum benefit you still need to make your purchases before December 31, 2008."

The best way to ensure that your business gets the most benefit from all of the provisions in the Economic Stimulus Act is to consult with a professional that specializes in construction accounting and taxation, like Thurman and the other CPAs at ThomasYork.

"The bottom line," states Thurman, "is that you shouldn't make your final decision to purchase new equipment based solely on the tax break. If implementing new construction accounting software will give you greater control over costs and help your staff work more efficiently, then that purchase is absolutely a good business decision – no matter what the tax incentive may be."

## About Kevin Thurman

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