

RETROACTIVELY EFFECTIVE DEPRECIATION CHANGES IN THE JOB CREATION AND WORKER ASSISTANCE ACT OF 2002

This topic is about important changes for businesses and professionals in the recently enacted "Job Creation and Worker Assistance Act of 2002". In an effort to stimulate the economy, Congress gave taxpayers an extra 30% first-year depreciation writeoff for most new capital assets (other than buildings) acquired after September 10, 2001, and before September 11, 2004, and placed in service before 2005 (before 2006, for certain property with longer production periods). In effect, this additional writeoff means you can recover more of the cost of a business asset in the year you place it in service.

WHAT QUALIFIES FOR THE EXTRA 30% DEPRECIATION WRITEOFF?

Most types of new, nonrealty assets, such as business machines, computers, most types of computer software, many types of production equipment, trucks, trailers, business furniture and even assets such as horses and fruit- or nut-bearing trees and vines.

New business autos also qualify for a bigger first year writeoff. The first-year depreciation dollar cap on new autos bought for business purposes is boosted by \$4,600, effective for autos acquired after September 10, 2001, and before September 11, 2004. For qualifying autos bought after September 10, 2001, and before 2003, that means a maximum first year writeoff of \$7,660 (the regular \$3,060 first year dollar cap plus \$4,600). The extra writeoff applies only if the auto is used more than 50% for business.

Taxpayers also are entitled to an extra 30% depreciation writeoff for qualified leasehold improvements. In general, these are interior improvements made under a lease to commercial property (such as an office building or warehouse), and placed in service more than three years after the building was first placed in service. Certain structural improvements don't qualify, and neither do expansions. Additionally, the improvements generally must be acquired after September 10, 2001, and before September 11, 2004, and placed in service before 2005.

These depreciation changes are retroactively effective (that is, they apply to qualifying new property acquired after September 10, 2001). As a result, returns which have already been filed for tax year 2001 (as well as 2000 returns of some fiscal-year businesses) will have to be amended to take advantage of the additional writeoff. However, under some circumstances, a taxpayer may be better off not claiming the extra first-year depreciation deduction.

Comments is an informative publication for our clients and friends of the Firm. It is designed to provide accurate information on the subject matter covered. We recommend you consult with your legal and other advisors to determine if the information is applicable in your specific circumstances. If these advisors are not available to you, please feel free to contact Barry N. Finkelstein, CPA at 972/934-1577 or e-mail at info@facpa.com.