



# LEGAL EASE

## AVIATION LAW

### MADE SIMPLE

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## Tax Benefits for Avionics Shops, Avionics Buyers

**T**ax laws are rarely exciting, but they can be important to the health of the government and the health of the nation. For AEA members, recent changes in the tax laws offer important benefits for those seeking to invest in equipment or tooling — and those same tax law changes also can provide financial benefits to potential customers considering whether or not to invest in new avionics equipment.

The same Economic Stimulus Act tax law changes resulting in tax rebates for Americans also provide business investment provisions meant to stimulate investment by businesses. These stimulus items focus primarily on acceleration of depreciation benefits associated with business investments.

### Bonus First-Year Depreciation

The new law permits a bonus first-year depreciation deduction of 50 percent of the adjusted basis of qualified property acquired and placed in service after Dec. 31, 2007 and before Jan. 1, 2009.

The types of property eligible for bonus depreciation are the same as those eligible under earlier bonus depreciation packages:

- Tangible property with a recovery period not exceeding 20 years.
- Purchased computer software.

- Water utility property.
- Qualified leasehold improvement property.

Bonus depreciation will be allowed for alternative minimum tax as well as for regular tax purposes. The other half of the property's adjusted basis is depreciated under the normal rules

federal law. Businesses are entitled to “expense” a certain portion of their otherwise depreciable asset purchases. This means a company can accelerate deductions that otherwise might be deferred until later years.

A company does not have to wait to enjoy the tax advantages associ-

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applicable to the property; so, the first year's depreciation will reflect the 50 percent bonus depreciation, plus the normal first-year depreciation associated with the remaining half of the value of the asset. Therefore, the total first-year depreciation could be significantly more than half of the total depreciable value of the asset.

Under the limits of the bonus depreciation, the property's original use must begin with the taxpayer, which means used property does not qualify for the bonus depreciation. For example, overhauled equipment purchased through an exchange agreement would not benefit from the bonus first-year depreciation provisions.

### Increased Expensing Under New Law

The new law increases the amount of assets a business can expense under

ated with the asset purchase. Because of the time-value of money, this sort of acceleration of deductions can be valuable.

Before the tax stimulus bill was passed, Section 179 of the Internal Revenue Code allowed businesses to expense up to \$128,000 (as indexed for inflation) of the cost of otherwise depreciable machinery and equipment that was purchased and put into service in the business. This annual expensing limit was reduced (but not below zero) by the amount by which the cost of qualifying property placed in service during the taxpayer's taxable year exceeds \$510,000 (as indexed for inflation).

These expensing amounts are increased under the new bill. For the taxable year beginning in 2008, the new law increases the \$128,000 expensing limit to \$250,000, and it

boosts the overall investment limit from \$510,000 to \$800,000.

Because the new law refers to a “taxable year beginning in 2008,” businesses on a fiscal tax year, rather than a calendar tax year, might want to consider deferring purchases of equipment and other Section 179 property until after their fiscal year begins during 2008.

At present, this is a one-year provision. Unless Congress later decides to extend it beyond 2008, the increased expensing allowed by the new law is only applicable for the 2008 tax year.

For example, an avionics repair station purchasing a \$200,000 test set in 2008 (and no other depreciable assets) would be able to depreciate the entire amount in tax year 2008. Under the old law, only the first \$128,000 would have been deductible and the remainder would have been depreciated over the service life of the equipment.

### **What Does This Mean for Your Customers?**

If you improve depreciable business property, you must treat the improvement as separate depreciable property.

For aircraft in business use, new depreciable assets, such as new avionics, are separately depreciable. This means the avionics must be depreciated over time. Therefore, new tax laws increasing the amount that can be deducted in the first year are a benefit to customers.

Repair stations should point out these increased benefits to potential customers — particularly because the window of opportunity for these benefits could be short-lived.

### **Temporary Increase in Conforming Loan Limits**

In addition to new tax incentives, the Act also provides an increase in the conforming-loan limits for loans the Federal Housing Administration (FHA) may ensure and loans govern-

ment-sponsored enterprises (GSE) — Fannie Mae and Freddie Mac — may buy.

This provision applies to mortgages entered into after July 1, 2007 and before Jan. 1, 2009. The provision increases the FHA and GSE loan limits to 125 percent of the median house cost in a local market to a maximum of \$729,750, and expires Dec. 31, 2008. This measure is intended to help the struggling mortgage market.

These provisions are unlikely to affect most AEA members directly, although they might affect employees of AEA member companies. The provisions could have an important indirect affect on the credit markets by making credit more readily available.

The resultant affect on the economy could provide a host of benefits to AEA members and to those who might buy avionics from the AEA community.

### **Economic Stimulus Act of 2008**

The Economic Stimulus Act of 2008 is codified as Public Law No: 110-185. These economic initiatives are intended to bolster the economy and stave off concerns of a recession.

The media has said “many economists” believe a stronger stimulus package is needed, and some members of Congress are considering adding a second stimulus package.

Stimulus efforts such as these have been tested before. Congress perceives a need to stimulate the economy and it promulgates new tax laws — which provide advantages to AEA members and to their customers. So, when we tell you about tax advantages for investment in equipment, it should sound familiar.

Time could be running out to take advantage of these tax breaks. Most of the Democratic candidates for U.S. president pledged on the campaign trail to eliminate “tax breaks for the wealthy.” Accelerated depreciation represents exactly the sort of thing that

could be easily eliminated to provide an offset for congressional claims of savings.

Pay careful attention to these provisions, and make certain your customers understand them. They might not be around for long. □

*If you have comments or questions about this article, send e-mails to [avionicsnews@aea.net](mailto:avionicsnews@aea.net).*