



BY ED WINN III

# A new DEPRECIATION law aids rental dealers

**M**ost rental dealers know by now that the Job Creation and Worker Assistance Act of 2002, which the president signed into law in early March, gave them an unexpected tax benefit. This benefit is the result of a depreciation provision in the Act that applies to most kinds of depreciable property purchased between September 10, 2001, and September 11, 2004. For dealers with calendar-year year ends, they were eligible for the extra depreciation on most of their fourth quarter purchases last fall.

**“REINVESTING THOSE FOUND DOLLARS INTO THE BUSINESS MAY MAKE THE MOST SENSE OF ALL FOR MANY DEALERS WHO INTEND TO STILL BE IN THE RENTAL BUSINESS IN 2004.”**

**T**he law applies to “qualified property” and that term is broadly defined. It includes all property purchased by dealers as rental inventory. It includes any other property purchased with a recovery period of 20 years or less. It includes trucks. It includes certain qualified leasehold improvements. The qualifications are very restrictive. You should check with your accountant or tax adviser. In a word, almost any property a rental dealer purchases (except real estate) that is not expensed and, therefore, is depreciated, is covered by the new law.

The law gives a dealer an additional, immediate depreciation allowance of 30 percent right off the top. Then the law says to apply whatever other depreciation method is appropriate to the basis in the property after taking the 30 percent.

For example, assume a dealer bought \$100,000 worth of rental inventory after September 10 to have full showrooms during the fourth quarter. Under the old law, using three-year MACRS and all the conventions that apply, the dealer would take 33.33 percent of the cost of the inventory in the first year or \$33,300 in allowable depreciation.

Under the new law, the dealer gets 30 percent off the top or \$30,000. Then the regular depreciation rules apply to the remaining basis of \$70,000. Those rules haven’t changed and the dealers get 33.33 percent of the \$70,000 or \$23,331 for total allowable depreciation of \$53,331.

The faster write-off will mean money in the dealers’ pocket immediately, but the savings do not go on forever. In fact, they end in the foreseeable future—September 11, 2004, to be exact. A few years down the road, there will be a shortfall and if the dealer has spent all those savings generously offered up by Congress and the president in

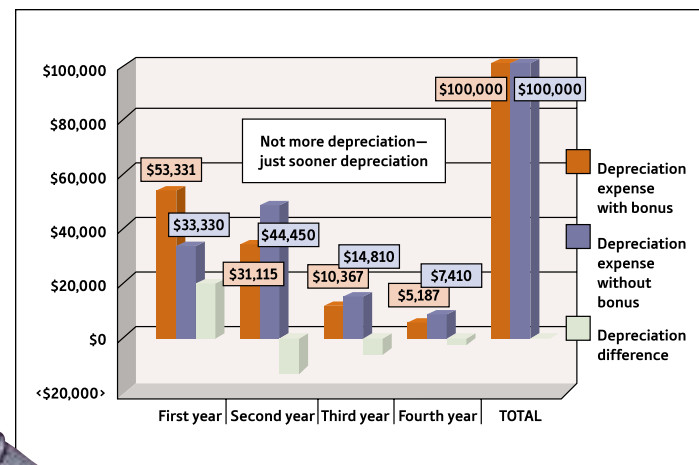
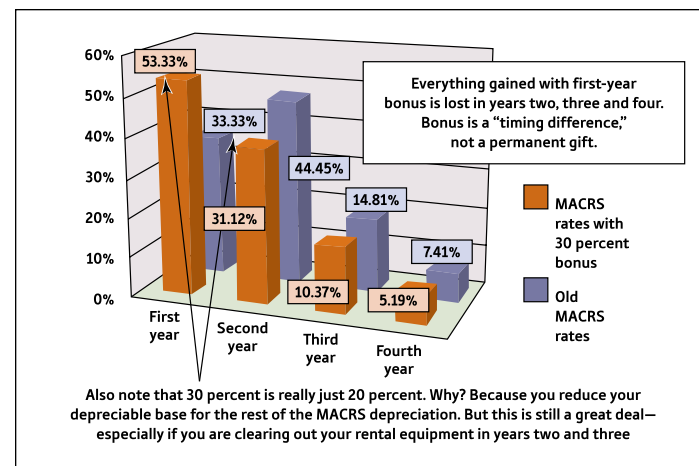
2002, the dealer could feel the pinch. Unless Congress extends the first year bonus depreciation (as many think

likely), the bonus depreciation expires on all purchases required after September 10, 2004. Furthermore, the depreciation you gain in year one, you lose in years two, three and four because the depreciation will be less than it would otherwise have been [see charts below].

And so, rejoice in the unexpected rental wealth created by this new law, but exercise some restraint and moderation at the same time. Reinvesting those found dollars into the business may make the most sense of all for many dealers who intend to still be in the rental business in 2004.

Copies of the new law are available to APRO members through the APRO office. ■

*Ed Winn III is APRO’s general counsel. His e-mail address is edwinn@e-bylaw.com.*



CHARTS BY DAVID N. WOOD, CPA/ABV OF WOOD, MITCHELL & ASSOCIATES

