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'Cinderella' tax break may boost IT buying this year

New equipment purchased in 2011 is eligible for 100% bonus depreciation as part of 2011 tax legislation

By Patrick Thibodeau

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Computerworld - WASHINGTON -- A so-called 100% bonus depreciation tax benefit approved by Congress last month may give IT managers an incentive to upgrade equipment before this benefit expires at year-end.

The tax benefit, part of Congress' tax bill, was made retroactive to Sept. 8, the day President Barack [Obama pitched the idea](#) as an [immediate economic stimulus](#).

Greg Rosica, a tax partner at Ernst & Young LLP, said the benefits from depreciation on new equipment, such as servers, can take as long as five years for companies. But the 100% bonus depreciation allows a company to take the entire benefit in the first year.

The amount of benefit is a function of the type of business and the tax rate paid, said Rosica. A business, for instance, that is paying the top corporate tax rate of 35% and spends \$100,000 on equipment will be able to take a \$35,000 reduction on their tax bill in the current year.

There is no limit on the amount of equipment that can be depreciated, but it must be new.

Rosica said the benefit "can significantly reduce your cost" in the short term -- a company will still get that same tax bonus over a five-year period, but the bonus is allowing them to accelerate it and get it all upfront.


The tax benefit will be of help to those companies that don't normally keep some eligible IT equipment in use for five years, Rosica added.

Frank Scavo, president of research firm Computer Economics, said the tax change will impact the timing of new purchases. "Buyers who are looking out 18 months now may move acquisitions into 2011 to take advantage of the accelerated depreciation," he said.

The tax benefit's relatively short window "could create a mini-boom in [new equipment purchases](#), perhaps even [leading to] some shortages of key components," said Scavo.

The flip side of this benefit may be a fall-off in new purchases in 2012, said Scavo. "This is the problem with trying to fine-tune tax treatment; there are almost always unintended consequences," he said.

Howard Hammer, a principal at accounting firm **Fiske & Company** in Plantation Fla., believes the tax benefit is "going to have a tremendous effect" on buying. "Medium and large corporations have been stockpiling cash for quite a while and I think now they are going to jump on it," he said.

***Patrick Thibodeau** covers SaaS and enterprise applications, outsourcing, government IT policies, data centers and IT workforce issues for Computerworld. Follow Patrick on Twitter at [@DCgov](#), or subscribe to [Patrick's RSS feed](#) . His e-mail address is pthibodeau@computerworld.com.*