

**NEW DEPRECIATION TAX LAW 2002**

The Job Creation and Worker Assistance Act of 2002 was passed by Congress on 8 March 2002 and signed by President Bush on 9 March 2002. This bill creates some **advantages for John Deere Agricultural customers.**

- For each piece of property purchased after 11 September 2001 and before 11 September 2004, the original user/purchaser will be allowed to take an **additional first year depreciation in the amount of 30%** of the customers tax basis/cost<sup>1</sup> on each piece.

The depreciation tables below indicate the type of dramatic impact this can have on a customer's depreciation deduction. (**It should be noted** that the new tax law pertains to both Mid-Year (1/2 Year) and Mid-Quarter Convention depreciation methods).

- What does this new tax law mean for your customer? In the first tax year on a new piece of AG equipment under Mid- Year (1/2 Year) Convention the customer will realize a **37.5% write off** with the new tax law consideration vs. 10.7% without it. (32% under Mid-Quarter Convention for a 4<sup>th</sup> quarter purchase with the new tax law vs 2.6% without it).

CCE equipment would realize a 44% write off. (see table next page)

- This additional first year depreciation is **not available on used equipment.** However, major repairs/reconditioning of machines which are capitalized would qualify for the additional first year depreciation.

<b>\$100,000 Piece of Farm Equipment Depreciation Available</b>		
(7 year depreciation using 150% declining balance)		
<b>YEAR</b>	<b>Mid-Year Convention w/additional 30%</b>	<b>Mid-Year w/o additional 30%</b>
<b>2002</b>	<b>\$37,497 (\$30,000 + \$7,497<sup>2</sup>) 37.5%</b>	<b>\$10,720 (10.7%)</b>
2003	\$13,391	\$19,130
2004	\$10,521	\$15,030
2005	\$ 8,575 (straight line)	\$12,250
2006	\$ 8,575	\$12,250
2007	\$ 8,575	\$12,250
2008	\$ 8,575	\$12,250
2009	\$ 4,291	\$ 6,120
<b>TOTAL</b>	<b>\$100,000</b>	<b>\$100,000</b>

<sup>1</sup> The customer's cost can be impacted by trade-ins and other special situations.

<sup>2</sup>\$100,000 - \$30,000 (30% x \$100,000) divided by 7 years x's 1.5 (declining balance) x's .5 (1/2 yr. multiplier) (the .5 multiplier is only used the 1<sup>st</sup> year)

<b>\$100,000 Piece of Farm Equipment Depreciation Available</b>		
<b>Purchased in the 4<sup>th</sup> Quarter</b>		
(7 year depreciation using 150% declining balance)		
<b>YEAR</b>	<b>Mid-Qtr. Convention w/ additional 30%</b>	<b>Mid-Qtr. w/o additional 30%</b>
<b>2002</b>	<b>\$31,875</b> (\$30,000 + \$1,875 <sup>1</sup> ) <b>32%</b>	<b>\$ 2,678 (2.6%)</b>
2003	\$14,598	\$20,854
2004	\$11,470	\$16,386
2005	\$ 9,356 (straight line)	\$13,351
2006	\$ 9,346	\$13,351
2007	\$ 9,346	\$13,351
2008	\$ 9,346	\$13,351
2009	\$ 4,673	\$ 6,678
<b>TOTAL</b>	<b>\$100,000</b>	<b>\$100,000</b>

<sup>1</sup> \$100,000 - \$30,000 (\$100,000 X 30%) divided by 7 years x's 1.5 (declining balance) x's .125 (4<sup>th</sup> qtr. multiplier)  
(3<sup>rd</sup> qtr multiplier = .375 ; 2<sup>nd</sup> qtr = .625 ; 1<sup>st</sup> qtr = .875)  
(the 1<sup>st</sup> - 4<sup>th</sup> qtr. multipliers are only used the 1<sup>st</sup> year)

<b>\$10,000 Piece of CCE Equipment Depreciation Available</b>		
(Assuming a 5 year depreciation using 200% declining balance)		
(Your actual depreciation method and life will depend on your business classification)		
<b>YEAR</b>	<b>Mid-Year Convention w/additional 30%</b>	<b>Mid-Year w/o additional 30%</b>
<b>2002</b>	<b>\$4,400</b> (\$3,000 + \$1,400 <sup>1</sup> ) <b>44%</b>	<b>\$2,000 (20%)</b>
2003	\$2,240	\$3,200
2004	\$1,344	\$1,920
2005	\$ 806 (straight line)	\$1,152
2006	\$ 806	\$1,152
2007	\$ 404	\$ 576
<b>TOTAL</b>	<b>\$10,000</b>	<b>\$10,000</b>

<sup>1</sup> \$10,000 - \$3,000 (30% X \$10,000) divided by 5 years x/s 2.0 (declining balance) x's .5 (1/2 yr. multiplier)

**AGRICULTURAL DIVISION SAMPLE DEPRECIATION SCHEDULE**

A \$100,000 piece of equipment used in the business of farming  
(7 year depreciation using 150% declining balance Mid- Year Convention)

	Cost of Equipment	Marginal Tax Rate	Interest Rate on Tax Savings			
	\$ 100,000	31%	8%			
Year	After 11 Sept.	Before 11 Sept.	Additional Depreciation	Tax Savings per Year	Simple Interest	Compound Interest
2002	37,497	10,720	26,777	8,301	664	664
2003	13,391	19,130	(5,739)	(1,779)	522	575
2004	10,521	15,030	(4,509)	(1,398)	410	509
2005	8,575	12,250	(3,675)	(1,139)	319	459
2006	8,575	12,250	(3,675)	(1,139)	228	404
2007	8,575	12,250	(3,675)	(1,139)	136	345
2008	8,575	12,250	(3,675)	(1,139)	45	282
2009	4,291	6,120	(1,829)	(567)	-	259
<b>Total</b>	\$ 100,000	\$ 100,000	\$ -	\$ -	\$ 2,324	\$ 3,497
				<b>Savings-% of Investment</b>	2.3%	3.5%

The “assumption” chart above is intended to illustrate a possible “**minimal**” benefit of the new tax law. We will assume a “snap shot” in time of our same \$100,000 piece of equipment. Part of that assumption is that everything stayed constant and that the taxpayer will have a marginal tax rate of 31% for the stated time period. We will also assume that the tax payer did not opt to take the tax savings and put it into a low paying interest savings account but invested the savings with an average earnings of 8% over that time period.

Instead of the 2<sup>nd</sup> year being the biggest year in the depreciation schedule (before 11 Sept.) it has been accelerated to the first year with the additional 30%. With a 31% marginal rate times the additional \$26,777 in depreciation, the taxpayer would realize a \$8,301 tax savings the first year. If you assume an average rate of return of 8% on that \$8,301, \$664 simple interest would be earned.

From 2003 – 2009 there is no additional depreciation, so that the decrease in depreciation allowed zeros out the \$26,777 up front. Likewise, the initial tax savings eventually zeros out. (2<sup>nd</sup> year simple interest = \$8,301 – 1,779 x’s .08). The total simple interest earned over the time period would be \$2,324 – compounded to \$3,497.

Deere strongly recommends you consult with your tax advisor to see how this tax savings opportunity applies in your situation. *Customers may also be able to take advantage of the 179 expense deduction where up to \$24,000 of capital purchases may be written off during 2002.* The full 179 deduction only applies to customers who acquire no more than \$200,000 of equipment during the year. (over \$200,000 in purchases decreases the \$24,000 dollar for dollar over \$200,000)