

Alabama Department of Revenue

Information Release

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Alabama Will Not Follow 2008 Federal Depreciation Rules *Fiscal-Year Filers Are Cautioned to Avoid Filing Errors*

Montgomery—Legislation passed during the recent Special Session of the Alabama Legislature, Act 2008-549 provides that Alabama income tax laws will not follow recent changes in federal law addressing bonus depreciation rules.

The federal Economic Stimulus Act of 2008 allows taxpayers to claim 50 percent of an asset's basis as "bonus depreciation" in the year the asset is placed in service. Taxpayers may then claim the regular depreciation on the remaining 50 percent of the asset's basis. The federal provision applies to assets placed in service after Dec. 31, 2007, and before Jan. 1, 2009, for most property, and before Jan. 1, 2010, for certain property with longer production periods.

The ADOR advises that Alabama income tax laws will not follow the 2008 federal law change, but will continue to be tied to the federal depreciation rules without consideration of the changes implemented by the Economic Stimulus Act of 2008.

Depreciation is an income tax deduction that allows a taxpayer to recover the cost or other basis of certain property over several years. It is an annual allowance for the wear and tear, deterioration or obsolescence of the property.

The ADOR encourages business taxpayers to note differences in the federal and state tax treatment of depreciation for Alabama tax planning and return preparation purposes for the current and future tax years affected by the federal changes.

The 2007 Alabama income tax forms do not account for the recent change in the federal law and the ADOR offers special guidance to fiscal-year filers who may be affected.

Fiscal-year filers using the 2007 Alabama forms must account for the difference between the state and federal depreciation amounts. To do this, the ADOR advises that the difference between the amount claimed on the 2007 federal return and what is allowed to be claimed on the 2007 Alabama return must be added back on a line on the

Alabama return which will allow for other additions to income. Fiscal-year filers should also attach a separate page to the 2007 Alabama return showing computations used to arrive at the difference between the federal and state depreciation amounts.

A fiscal-year taxpayer who has already filed a 2007 Alabama return and claimed the additional 50% bonus depreciation must file an amended 2007 Alabama return to adjust for the difference in the depreciation allowed under Alabama law. Calendar-year business taxpayers who filed 2007 returns are not affected.

“We regret the inconvenience this may cause some of our fiscal-year business filers, and stand ready to assist them however we can,” said State Revenue Commissioner Tim Russell.

For more information concerning Alabama business tax returns and filing guidance, visit ADOR’s Web site at <http://www.revenue.alabama.gov/incometax/icindex.cfm>, or call (334) 242-1000.

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