In its attempt to stimulate the economy and encourage redevelopment in the areas hit by the 2008 weather disasters, Congress has enhanced some depreciation deductions. One of the enhancements affects all business taxpayers including farmers.

The Emergency Economic Stabilization Act of 2008 (EESA) provides a number of tax incentives for taxpayers residing in or having businesses in a presidentially declared disaster area. This includes taxpayers hit by the June 1, 2008 floods in the Illinois counties of Calhoun, Clark, Coles, Crawford, Cumberland, Douglas, Edgar, Hancock, Henderson, Jasper, Jersey, Lake, Lawrence, Mercer, Rock Island, Whiteside, and Winnebago. It also covers taxpayers hit by the September 13, 2008 floods located in Cook, DeKalb, DuPage, Grundy, Kane, LaSalle, Will, and Woodford counties in Illinois. A complete listing of all presidentially declared disaster areas and other depreciation changes can be found on the IRS web site at www.irs.gov.

The Economic Stimulus Act of 2008 (ESA) provides for 50% bonus depreciation for all business taxpayers if the property is qualified, purchased, and placed into service between January 1 and December 31, 2008. However, the ESSA extends the replacement period for 50% bonus depreciation for taxpayers residing or having a business within a qualified disaster area. The extension applies if:

- The property has a recovery period of 20 years or less, or is computer software that is depreciable over three years, water utility property, or qualified leasehold improvements. Unlike the normal 50% bonus depreciation property, it also includes nonresidential real property and residential rental property.
- Substantially all use of the property is in a disaster area and the disaster occurred before January 1, 2010. The property must be used in the active conduct of the taxpayer’s trade or business.
- The property replaces or rehabilitates property condemned or destroyed because of the disaster.
- The property is acquired after the date of the disaster. No written binding contract can be in place prior to the disaster.
- The property is placed in service by December 31, 2011, or December 31, 2012 if it is nonresidential real property or residential rental property.

Used property acquired outside of the disaster area may qualify. However, the eligible taxpayer’s first original use of the property must be within the disaster area.

The implications for Illinois farmers in the affected areas include:
• If they lost grain bins due to the flood, they have until the end of 2011 to replace and put the new grain bins into service as long as the purchase is after the date of the flood.
• The same is true if they lost or had substantial damage to a farm building.
• If they lost a rental house, they have until the end of 2012 to build and place the new rental house into service. If a farmer lost a combine due to the flood, he can purchase a used combine from anyone other than a related party if the combine is located outside the disaster area.

The extended replacement period also applies to many areas other than Illinois.