



Caterpillar Customers Benefited by 2008 Economic Stimulus Package

Caterpillar customers who make purchases or enter into lease agreements in 2008 may benefit from significant tax advantages due to the 2008 Economic Stimulus Act.

Relevant incentives include:

- > Higher first-year expense deductions up to \$250,000 (for Section 179 qualified customers)
- > 50% bonus depreciation on the first year for new equipment purchased in 2008
- > Regular depreciation on the remaining basis

Background

- > Most Caterpillar equipment qualifies for these incentives
- > Customers who use the equipment in their trade or business and who make purchases in 2008 (of no more than \$800,000 in new or used equipment), qualify for an increased one-time expense allowance of \$250,000
- > Customers who first place new equipment in service can claim the bonus depreciation benefits

These incentives will help defer customers' tax liability and improve affordability and cash flow. The better you understand the legislation, the more you can help your customer better manage their next Caterpillar equipment purchase or lease. Failure to understand the legislation could lead to a loss or forfeiture of these benefits.

Examples

Other qualified Caterpillar customers will also benefit from the bonus depreciation. The hypothetical examples below compare the expenses and bonus depreciation allowed in 2007 and 2008. (Assuming a five-year MACRS depreciation schedule, half-year convention)

Example 1: Sec. 179 Qualified Customer Purchases Assets for \$800,000		
	2007	2008
Expenses Allowed	128,000	250,000
Bonus Depreciation (if new assets)	-	275,000
Regular MACRS Depreciation	134,400	55,000
Total Expenses and Depreciation (\$)	262,400	580,000

SALES BULLETIN (continued)

Example 2: Customer Purchases Assets for \$800,000 without Sec. 179

	2007	2008
Expenses Allowed	-	-
Bonus Depreciation (if new assets)	-	400,000
Regular MACRS Depreciation	160,000	80,000
Total Expenses and Depreciation (\$)	160,000	vs. 480,000

Example 3:

Equipment Cost of	\$50,000
50% Bonus Depreciation	\$ 25,000
Plus normal depreciation*	\$ 5,000
Total Depreciation for 2008	\$ 30,000

*Based on 5 yr MACRS Depreciation

Example 4:

Equipment Cost of	\$1,000,000
50% Bonus Depreciation	\$ 500,000
Plus normal depreciation*	\$ 100,000
Total Depreciation for 2008	\$ 600,000

*Based on 5 yr MACRS Depreciation

1) How does the Stimulus Package benefit me if I BUY equipment in 2008?

Buying equipment this year provides the customer with significantly greater tax deduction potential in 2008. With Example-1, the customer has a potential tax deduction of \$580K instead of \$262K this year. Therefore, in 2008, the customer pays less in taxes and gets improved cash flow. The tax payments are caught up in later years. In essence, the customer will receive an interest-free loan from the government.

2) How might it benefit me if I LEASE equipment in 2008?

If you lease equipment from Caterpillar Financial or FCC, your rental payments will be lower because Caterpillar and FCC are passing the benefits to you. This means your cash flow will improve.

3) Why should I buy or lease in 2008 instead of 2009?

If you wait to buy or lease in 2009 instead of 2008, you will miss an opportunity for considerable savings. The stimulus package is valid for equipment placed in service in 2008, and we do not anticipate another stimulus package for 2009.

4) Can I purchase my leased equipment so I can get the depreciation?

If you are leasing now and you want to purchase your equipment to receive the depreciation benefit, you will need to do this within 90 days from the lease start date.

5) Still unsure whether to lease or buy equipment this year?

If you are still undecided between leasing and purchasing, your best bet may be to use the Caterpillar Flex Lease product. This product gives you the flexibility of both renting (with pre-negotiated options to return the equipment or purchase the equipment) with the benefits of ownership. See your Cat Financial or FCC representative for further details.

Caterpillar Financial

Please contact your Territory Manager.

FCC Equipment Financing

Please contact your Regional Sales Manager.

Interest rate quotations are good for 60 days from date of quotation and are subject to change by Caterpillar Financial Services Corporation. All transactions must have a minimum amount to finance of \$5,000. All transactions are subject to credit approval.

This notification is for informational purposes only and should not be considered tax or legal advice. Caterpillar does not provide tax advice. Always consult your company's legal counsel, accountant, or tax advisor before making decisions regarding the Economic Stimulus Package of 2008.