

Section 179 Deduction & Bonus Depreciation

Updated 03.08.11

Most new business equipment can either be depreciated over its useful life or expensed immediately under Internal Revenue Code Section 179. The maximum deduction is based on the following schedule for the date in which the tax year begins. Each 1040, whether Single or Married, is limited to one maximum. Section 179 expenses passed through via K-1s from partnerships (1065), S-corps (1120s,) or trusts (1041) are limited at the 1040 level to the one maximum amount. A C-corp is able to deduct its own 179 expenses in addition to what is claimed on the 1040s of the owners. This is one of the few ways in which C-corps can save taxes over S-corps.

The following table lists the federal maximums for the deduction and the maximum amount in total asset purchases before the deduction is limited. Many states have not matched these amounts and have much smaller allowable deductions. In those cases, it is critical to maintain two sets of depreciation schedules; one for the IRS and another for the State. Since the basis of an asset may be different for each tax agency, the gain or loss on its disposal will similarly be different.

YEAR	MAXIMUM DEDUCTION	Maximum Assets Placed in Service Before Phase Out of Section 179
2009	\$250,000	\$ 800,000
2010	\$500,000	\$2,000,000
2011	\$500,000	\$2,000,000
2012	\$125,000	\$ 500,000
2013	\$ 25,000	\$ 200,000

Generally, the types of business equipment that qualify for this expensing election are the same kind that qualified for the now-defunct Investment Tax Credit. Most movable assets qualify. Permanent structures do **not** qualify. Some business vehicles with a gross vehicle weight over 6,000 pounds qualify for the *full* Section 179, while lighter vehicles have a much lower dollar limit. Sport utility vehicles, short-bed trucks, and certain vans that are exempt from the luxury auto depreciation caps are subject to a \$25,000 Section 179 cap.

One of the most common questions is whether the Section 179 expensing election is only available for the purchase of brand new assets or whether things such as used vehicles qualify. The answer is the asset just has to be **new to you**. You can claim the deduction for items purchased from anyone other than yourself or an entity controlled by you, such as a closely-held corporation.

To be eligible for the Section 179 deduction, the asset must be used at least 50% for business in the first year it is placed in service. The cost eligible for the deduction is the business usage percentage.

Qualifying Property:

- Tangible personal property (i.e. machines, equipment, furniture.)
- Certain other tangible property used for specified purposes.
- Single-purpose agricultural or horticultural structures.
- Certain storage facilities.
- Railroad gradings or tunnel bores.
- Certain qualified real property.

Non-qualifying Property:

- Property held for the production of income (i.e. investment property, most rentals.)
- Real property, including buildings **and** their structural components (e.g. A/C & heating units.)
- Property acquired by gift, inheritance, or trade.
- Property purchased from certain related parties.
- Controlled group to controlled group transactions.
- Property used outside the United States.
- Property used in connection with furnishing lodging.
- Property used by tax-exempt organizations and governmental units.
- Property used by foreign persons or entities.
- Property held by an estate or trust.
- Property used by a passive activity.
- Intangible property (including computer software.)

A taxpayer may elect to treat the cost of qualified real property placed in service in a tax year that begins in 2010 or 2011 as Section 179 property. The maximum amount of qualified real property that may be expensed is limited to \$250,000. The expensed amount is counted toward the overall \$500,000 expense limit for 2010 and 2011 discussed above.

Section 179 deductions cannot exceed the total amount of taxable income derived from the active conduct of any trade or business during the tax year. An amount disallowed as the result of the taxable income limitation is carried forward.

Bonus Depreciation

50% bonus depreciation is allowed for business property acquired after December 31, 2007 and before September 9, 2010 and placed in service before January 1, 2011.

100% Bonus Depreciation is allowed for business property acquired after September 8, 2010 and before January 1, 2012 and placed in service before January 1, 2012 (or before Jan 1, 2013, in the case of certain property.) To qualify for Bonus Depreciation, the property must be new (original use must begin with the taxpayer) which is depreciable under MACRS and has a recovery period of 20 years or less.

Unlike Section 179 deductions, Bonus depreciation deductions are not limited by taxable income of the trade or business.