

## Section 179 Deduction

*(Updated for 2010 COLA)*

Most new business equipment can be either 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 Joint, is limited to one maximum. 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 many ways in which C corps can save thousands of dollars in taxes over S corps.

The following table is of 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 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.

<b>2008</b>	<b>\$250,000</b>	<b>\$800,000</b>
<b>2009</b>	<b>\$250,000</b>	<b>\$800,000</b>
<b>2010</b>	<b>\$134,000</b>	<b>\$530,000</b>
<b>2011</b>	<b>\$25,000</b>	<b>\$25,000</b>

### Qualifying Property

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. Business vehicles with a gross vehicle weight over 6,000 pounds qualify for the full Sec. 179, while lighter vehicles have a much lower dollar limit.

One of the most common questions I am still receiving 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 still the same. 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 (such as 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.

**Nonqualifying Property:**

- Property held for the production of income (investment property, most rentals).
- Real property, including buildings and their structural components, air conditioning and 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).