

## Business Tax Section

### Bonus Depreciation Extended for Assets Placed in Service in 2011 and 2012

The *Small Business Jobs Act* allows 50 percent bonus depreciation for qualifying new (not used) assets placed-in-service during calendar year 2010. The recently enacted Tax Relief Act amended the rules set forth in the Small Business Jobs Act to allow 100 percent bonus depreciation for qualifying new assets acquired and placed-in-service as of September 9, 2010 through the end of 2010. The Tax Relief act also extended the 100 percent bonus depreciation provision through 2011. However, the placed-in-service deadline to qualify for 100 percent bonus depreciation is extended through December 31, 2012 for certain assets that have longer production periods; including transportation equipment and aircraft. To be eligible for 100 percent bonus depreciation, an asset must pass all of the following tests:

- It must be qualified property to include most purchased software costs and certain leasehold improvement costs
- It must be purchased between September 9, 2010 and December 31, 2011
- The original use of the asset generally must begin in your business by no later than December 31, 2011 or December 31, 2012 for certain longer-lived assets

#### Assets Placed in Service in 2012

The 50 percent bonus depreciation rules return in 2012 for eligible assets placed in service during the year. The placed-in-service deadline is extended to December 31, 2013 for certain assets that have longer production periods.

In Summary, the combined effect of the two laws is to allow:

- 50 percent bonus depreciation for qualifying assets placed in service between January 1, 2010 and September 9, 2010
- 100 percent bonus depreciation for qualifying assets placed in service September 9, 2010 and all of 2011
- 50 percent bonus depreciation for qualifying assets placed in service between January 1, 2012 and December 31, 2012

#### Impact of Bonus Depreciation on Autos and Light Trucks

The Tax Relief Act and Small Business Act increase the maximum first-year depreciation deductions for eligible new passenger autos and light trucks placed in service in calendar years 2010 to 2012 by \$8,000.

- For new autos used strictly for business purposes, the maximum 2010 first-year depreciation deduction is \$11,060 (\$8,000 + \$3,060 (2009 limit)). The allowances for 2011 and 2012 are unknown at this time.
- For new light trucks and vans used strictly for business purposes, the maximum 2010 first-year depreciation deduction is \$11,160 (\$8,000 + \$3,160 (2009 limit)). The allowances for 2011 and 2012 are unknown at this time.

Used or previously owned autos, light trucks and vans do not qualify for bonus depreciation.

#### Bonus Depreciation and AMT Depreciation

The 100 percent and 50 percent first-year bonus depreciation rules apply for both regular tax

and AMT purposes. In addition, there is no AMT adjustment for Modified Accelerated Cost Recovery System (MACRS) depreciation deductions for the remaining half of the cost of assets subject to 50 percent bonus depreciation. Assets subject to the bonus depreciation rules have the same depreciation deductions for both tax and AMT purposes.

### Section 179 Rules for 2011

Under Section 179, a business can currently deduct the cost of qualified property placed in service during the year. Prior to the *Small Business Jobs Act*, the limit for 2010 was \$250,000 and the maximum deduction was subject to a phase-out for annual purchases above \$800,000. The *Small Business Jobs Act* increased the maximum deduction to \$500,000 for 2010 and 2011 with a phase-out threshold of \$2 million. Eligible assets include computers, office equipment, and furniture. Certain real estate improvement costs now qualify for Section 179 deductions of up to \$250,000.

### Section 179 Rules for 2012

The maximum Section 179 deduction was set to return to \$25,000 with a phase-out threshold of \$200,000 in 2012. The Tax Relief Act increased the maximum Section 179 deduction for 2012 to \$125,000 (adjusted for inflation) and increased the phase-out threshold to \$500,000 (adjusted for inflation).

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### Your Comments

- Is this item worthy of implementation?      Yes       No       Maybe
- Is this item worth sharing with other associates?      Yes       No       Maybe
- Did this item present value to you and your business?      Yes       No       Maybe

Comments: