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## **Memo: 2012 and 2013 Section 179 and Bonus Depreciation**

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Generally, the cost of property placed in service in a trade or business can't be deducted in the year it's placed in service if the property will be useful beyond the year. The cost is "capitalized" and depreciation deductions are allowed for most property (other than land), but are spread out over a period of years. Capitalization delays the tax benefits of business expenditures. For example, you may spend \$50,000 on a new computer system today, but must spread your depreciation deductions over a five-year period.

Subject to a dollar limit, an election under Internal Revenue Code Section 179 ("Code Section 179 election") allows you to deduct, in the tax year for which the election is made, the cost of qualifying property placed in service during the tax year. For tax years (whether calendar or fiscal) beginning in 2012 tax year, the dollar limit is \$500,000 and the beginning-of-phaseout level is \$2,000,000.

For tax years (whether calendar or fiscal) beginning in 2013 and later, the dollar limit is \$500,000 and the beginning-of-phaseout level is \$2,000,000.

**Taxable income limit.** If your taxable income from all of your trades or businesses is less than the dollar limit for that year, the amount for which you can make the election is limited to that taxable income. However, any amount you can't currently deduct because of the taxable income limitation is carried forward and may be deducted in later years.

**Vehicle Considerations.** Vehicles used in business (at least 50%) also qualify for Section 179. However there are specific rules that must be considered when determining the amount of the allowable Section 179 deduction and whether the vehicle qualifies.

There is a limitation of \$25,000 for purchases of SUV's and trucks that have a gross vehicle weight of more than 6,000 lbs. and not more than 14,000 lbs.

Other vehicles that are not subject to the above limitation and qualify as part of the \$500,000 Section 179 deduction, include the following

- Heavy “no-SUV” vehicles cargo area at least six feet in interior length
- Vehicles that can seat nine-plus passengers behind the driver’s seat (i.e. hotel/airport shuttle vans)
- Vehicles with fully-enclosed driver’s compartment/cargo area with no seating behind the driver’s seat (i.e. cargo van)

**Bonus depreciation.** For property placed in services after December 31, 2011, 50% bonus depreciation applies, subject to an election-out on a depreciation-class-by-depreciation class basis, to the following types of new (not used) property ("qualified property"): tangible property with a depreciation period of not more than 20 years (machinery, equipment, other tangible personal property, and non-building land improvements); most computer software; and certain leasehold building improvements. 50% bonus depreciation results in a deduction of 50% of the cost of an item of qualified property in the placed-in-service year and depreciation, under the regular depreciation rules, for the remaining cost of the item over the item's assigned depreciation period (beginning with the placed-in-service year. Certain land improvements (most parking lots, walkways, fencing, etc.) are eligible for bonus depreciation, but not Code Sec. 179 expensing.

100% bonus depreciation is still available for certain property with a long production period and aircraft, however, the placed-in-service deadline is December 31, 2012. 50% bonus depreciation will be available for this type of property in 2013.

This information has been prepared by Weber · O'Brien Ltd. Your financial advisor, lawyer or CPA should review all information included herein. If you have any questions please contact either R. David O'Brien, CPA [dobrien@weberobrien.com](mailto:dobrien@weberobrien.com), or James F. Weber, CPA [jweber@weberobrien.com](mailto:jweber@weberobrien.com) at 419.885.8338. We look forward to being of service to you or your company.