

## **Clarifying bonus depreciation, section 179 expensing rules for year-end equipment sales**

Equipment salespeople can use two tax provisions – increased bonus depreciation and section 179 expensing – to make new and used equipment sales before year end, but it's important that you and your salespeople understand these tax provisions first.

Both provisions encourage 2011 equipment purchases by allowing immediate write off of all dollars spent on the purchase of new and used equipment. So in theory, using these two provisions, a customer who buys \$100,000 of new or used equipment in 2011 can write off the entire \$100,000 purchase price and thus offset \$100,000 of taxable income on the 2011 tax return. The customer is not limited by a depreciation percentage amount. But, because we're talking about two tax laws and the government, how it actually works is not quite that simple.

To clarify:

- If the sale involves used equipment, the customer is limited to section 179 expensing with a maximum write off of \$500,000.
- If the sale involves new equipment, the customer can use both tax provisions to expense the entire cost of the new equipment.

Importantly, in 2011 there is no dollar limitation on the “bonus depreciation.” Thus if a customer buys \$2,000,000 of new equipment in 2011, the customer can write off the entire purchase price on the dealer's 2011 tax return. This rule will likely be applicable to 90 percent or more of your 2011 sales. However, additional requirements and features can apply. Urge salespeople to tell customers to consult with their tax advisors.

### **Section 179 expensing rules:**

- The \$500,000 expense amount is scheduled to drop to \$125,000 in 2012
- In 2011, up to \$250,000 of the \$500,000 expense amount can be used for qualified leasehold improvements, restaurant or retail – improvement property
- Used equipment may qualify if it is used at least 50 percent of the time for the business
- For 2011, the section 179 deduction starts to phase out dollar for dollar when total asset acquisitions for the tax year exceed \$2 million. This limit is scheduled to drop to \$500,000, indexed for inflation for 2012
- To qualify, equipment must not only be purchased before the end of the tax year but also be delivered to the customer by year end
- The customer can only claim the expense deduction to offset net income, not to reduce it below zero for carry-back purposes.

### **Bonus depreciation rules:**

- Because the bonus depreciation is not subject to asset purchase limitations, the 2011 bonus depreciation may lessen the importance of the section 179 deduction unless, of course, the purchase is for used equipment
- In 2012, the bonus depreciation drops to 50 percent of the purchase price and then after Dec. 31, 2012, the bonus depreciation is scheduled to disappear.