



## Tax bills provide benefits

### **The Small Business Jobs Act of 2010 (Jobs Act) and the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (Tax Relief Act) changes**

rules regarding depreciation and deduction of business property. Some of these changes are retroactive to the beginning of 2010. The new rules have numerous provisions that affect equipment dealers and their customers.

#### ■ **Some of the key provisions are as follows:**

##### **Section 179 – Business Expense**

The Jobs Act increases the Section 179 expense limit to \$500,000 for tax years beginning in 2010 and 2011. Within this \$500,000 limit, taxpayers are temporarily allowed to expense up to \$250,000 of the cost of qualified retail improvement property and qualified leasehold improvement property. The \$500,000 expense limitation is reduced dollar for dollar by the portion of the cost of Section 179 property placed in service during the year that exceeds a threshold. The Jobs Act increases this phase-out threshold to \$2,000,000 for tax years beginning in 2010 and 2011.

Previously, the Section 179 expense limit was scheduled to decline to \$25,000 in 2012 and the phase-out threshold was scheduled to decline to \$200,000. For tax years beginning in 2012 only, The Tax Relief Act increases the Section 179 expense limit from \$25,000 to \$125,000, subject to an inflation adjustment, and the phase-out threshold from \$200,000 to \$500,000, subject to an inflation adjustment.

For tax years beginning after 2012, the expense limit is scheduled to decline to \$25,000 and the phase-out threshold is scheduled to drop to \$200,000.

Taxpayers may wish to consider accelerating their purchases into 2010 or 2011 in order to use the more liberal expensing provisions.

##### **Bonus Depreciation**

The Jobs Act and the Tax Relief Act extend Bonus Depreciation (additional first-year depreciation deduction equal to 50 percent of the cost of certain new property) so that it applies to property placed in service before Jan. 1, 2013. In addition, the Tax Relief Act increases bonus depreciation from 50 percent to 100 percent for property acquired after Sept. 8, 2010 and before Jan. 1, 2012, and placed in service before Jan. 1, 2012. Generally, this is available for property eligible for MACRS with a depreciation period of 20 years or less or off-the-shelf computer software. There is no limit on the total amount of bonus depreciation that a taxpayer may claim in a particular tax year. Taxpayers wanting to use bonus depreciation should consider accelerating their purchases into 2011 when the bonus depreciation rate is 100 percent.

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## ■ How the new tax bill benefits equipment dealers

The Section 179 business expense deduction rules are extremely important to equipment dealers because this new law will encourage more equipment purchases by customers during the next year. Dealers should take an active role in promoting these changes and use them as a valuable marketing tool. The Section 179 business expense deduction and bonus depreciation rules also can be used by a dealership in the purchase of its own (a) machinery, tools or other property used in the dealer's business or (b) inventory held for leasing purposes.

## ■ Section 179 Business Expense Deduction

Section 179 of the tax code permits businesses to expense the costs of certain property that would otherwise be depreciated over several years. The new laws increase the annual limit of these deductions and extend the new rules through 2012.

### What is Section 179 property?

- A farm tractor purchased by a farmer is a good example of Section 179 property. The technical definition of Section 179 property is tangible personal property with a life exceeding one year that is used for trade or business.
- Real estate is generally not Section 179 property, except for the temporary expansion during 2010 and 2011 to include qualified retail improvement property and qualified leasehold improvement property.
- For tax years beginning in 2010 and 2011 only, the Jobs Act increases the maximum amount that a taxpayer may expense from \$250,000 to \$500,000. For tax years beginning in 2012, the Tax Relief Act sets this amount at \$125,000. After 2012, this amount is scheduled to return to \$25,000.
- During 2010 and 2011, a taxpayer may expense only \$250,000 of qualified retail improvement property and qualified leasehold improvement

property, and such amount counts towards the overall \$500,000 expense limitation.

- The Section 179 business expense deduction can only be used by small businesses. Small businesses are those with capital asset purchases (i.e., depreciable property) of \$2,000,000 per year for tax years beginning in 2010 and 2011, and \$500,000 in 2011. After 2012, the phase-out threshold is scheduled to drop to \$200,000.
  - For tax years beginning in 2010 and 2011, businesses with purchases of depreciable property over \$2,000,000 can also use Section 179 but the \$500,000 expense cap is reduced on a dollar for dollar basis once capital asset purchases exceed \$2,000,000.

## ■ Reduction in taxes on capital gains and dividends extended two years

### Decrease in Capital Gains Rates

Top capital gains rates were reduced to 15 percent from 20 percent. Capital gains taxes are assessed on gains on the sale of capital assets (e.g., stock). The new rates went into effect May 6, 2003, and were set to expire Dec. 31, 2010. The Tax Relief Act extends them through Dec. 31, 2012. However, there are some limitations:

- A 25 percent capital gains rate remains for long-term real estate gains attributable to depreciation recapture.
- Unless Congress takes further action, the old rates will return after Dec. 31, 2012.

### Dividends

Qualified dividends received by shareholders from C Corporations are currently taxed at the capital gain rates instead of the shareholder's ordinary income tax rate. However, there are some limitations to the new rules:

- Dividends received from tax-deferred retirement plans do not qualify for the new rates.
- Unless Congress takes further action, the old rates will return after Dec. 31, 2012.

**Disclaimer:** This summary and overview is provided as a general guide to equipment dealers. However, it does not contain all of the details of the new legislation. Each dealer should consult his/her tax advisor to determine how the new law specifically impacts his/her dealership and what procedures are necessary to benefit from the new tax laws. The information contained herein does not and is not intended to constitute legal advice, but should be used only in connection with consultation with an attorney in regard to a particular factual situation. Further, it pertains only to laws of the United States. Certain laws may vary from state to state and may vary depending on the business conducted by a particular employer.