Get Your First Year Depreciation Incentives While They Last!

By: Ross Nisly

While we have seen many tax incentives introduced for businesses over the past several years, as a result of the recession, it appears that many of those benefits will either be ending or reduced in the very near future.

Through the end of the 2011 calendar year, taxpayers are allowed 100% bonus depreciation deductions on qualifying new assets purchased. Beginning in 2012, the deduction rate will decrease to 50%. Currently, there is no tax provision that extends bonus depreciation deductions to 2013.

The maximum Section 179 deduction allowed through the end of 2011 is $500,000. This maximum deduction amount is expected to drop to $125,000 starting in tax year 2012. The phase-out amount for the Section 179 deduction will also decline starting in 2012. Through 2011, the deduction phases out if the eligible Section 179 assets purchased exceed $2 million. The phase-out threshold for 2012 is $500,000 of eligible asset purchases.

Additionally, generous depreciation rules for both new and used “heavy” vehicles are available to taxpayers through 2011. Generally, passenger autos are subject to the luxury auto depreciation limitations that significantly limit the depreciation deductions available for vehicles used in business each year. Passenger autos are defined as any four wheeled vehicle that is manufactured primarily for use on public streets, roads and highways and has a gross vehicle weight rating (GVWR) of 6,000 pounds or less. These luxury auto depreciation limitations do not apply to vehicles that are not classified as passenger autos, which would include vehicles that have GVWRs of greater than 6,000 pounds.

Normally, these “heavy” vehicles can be depreciated under MACRS rules and are considered to be five-year property, as long as they are used over 50% for business. Through 2011, *new* vehicles that are not considered passenger autos qualify for 100% first-year bonus depreciation. Both new and used vehicles that are not passenger autos also qualify for the Section 179 deduction at the $500,000 maximum deduction limit. Heavy sport utility vehicles (SUVs) are subject to a reduced Section 179 deduction of $25,000. These deductions are limited based on the business use percentage.

An SUV is defined as a four wheeled vehicle primarily designed to carry passengers over public streets, roads or highways and has a GVWR of no more than 14,000 pounds. Exceptions to this definition include vehicles that are designed to seat more than nine passengers behind the driver’s seat and vehicles equipped with a cargo area not readily accessible directly from the passenger compartment that is at least six feet in interior length.

Also, vehicles with an integral enclosure that fully encloses the driver's compartment and load carrying device, vehicles with no seating behind the driver's seat, and vehicles with no body section protruding more than 30 inches ahead of the leading edge of the windshield shall not be considered an SUV and, therefore, are not subject to the $25,000 Section 179 deduction limitation.

For *new* SUVs acquired and placed in service during 2011, taxpayers may fully deduct any depreciable basis in excess of the Section 179 deduction under the 100% bonus depreciation rules.

Taxpayers must consider the business-use substantiation rules that apply to heavy SUVs, pickups and vans since they are considered listed property. If, at any point, business use falls below 50%, a portion of the previous deductions claimed must be recaptured as ordinary income.

Are you expecting any capital expenditures in the near future for your business? Contact a Zinner & Co. team member at 216-831-0733 for assistance in planning the timing of these expenditures to provide the maximum tax benefit for your business.