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New Favorable Depreciation Rules for 2010 and 2011!

100% bonus depreciation is allowed after September 8, 2010 and before January 1, 2012

The 2010 Tax Relief Act provides that the bonus depreciation percentage is 100% (instead of 50%) for "qualified property" that is placed in service after September 8, 2010 and before January 1, 2012. The new law extends and temporarily increases this additional first-year depreciation provision for investment in new business equipment. In other words, the entire cost of qualifying property placed in service during that time frame can be written off, without limit.

Fifty percent additional first-year depreciation will apply again in 2012.

The new law leaves in place the existing rules as to what kinds of property qualify for additional first-year depreciation. Generally, the property must be depreciable property with a recovery period of 20 years or less; water utility property; computer software; or qualified leasehold improvements. Also the original use of the property must commence with the taxpayer - used machinery doesn't qualify.

Impact of Bonus Depreciation on Autos and Light Trucks

The bonus depreciation tax breaks for eligible new passenger autos and light trucks placed in service in calendar years 2010 to 2012 increase the maximum first-year depreciation deductions under the luxury auto depreciation rules by \$8,000. Used or previously owned autos, light trucks and vans do not qualify for bonus depreciation.

- For new autos used 100 percent for business, the maximum 2010 first-year depreciation deduction under the luxury auto rules is \$11,060 (\$8,000 plus \$3,060).
- For new light trucks and vans used 100 percent for business, the maximum 2010 first-year depreciation deduction is \$11,160 (\$8,000 plus \$3,160).

2010 Tax Relief Act Creates a 100% Write-off for Heavy SUVs used entirely for Business

Sports utility vehicles (SUVs) and trucks with gross vehicle weights in excess of 6,000 pounds are not subject to the luxury auto rules. Several of the popular sport utility vehicles (e.g., Cadillac Escalades, Toyota Land Cruisers, etc.) are heavy enough to be rated for gross vehicle weight in excess of 6,000 pounds.

Example: A calendar year taxpayer bought a \$50,000 heavy SUV in June of 2010 and used it 100% for business in 2010. It may write off \$40,000 of the cost of the vehicle on its 2010 return, as follows:

... \$25,000 expensing deduction, plus

... \$12,500 of bonus first year depreciation ($\$50,000 - \$25,000 \text{ of expensing} \times .50 = \$12,500$), plus

... \$2,500 of regular first-year depreciation ($\$50,000 - \$25,000 \text{ of expensing} - \$12,500 \text{ bonus depreciation} \times .20 = \$2,500$).

If the taxpayer purchases the SUV after September 8, 2010 and before January 1, 2012, they can write off the full \$50,000 cost of the vehicle.

Special "New" Section 179 for Qualified Real Property

Enhanced small business expensing (Section 179 expensing). To help small businesses quickly recover the cost of capital outlays for qualifying personal property, small business taxpayers can elect to write off these expenditures in the year of acquisition instead of recovering the costs over time through depreciation. The expense election is made available, on a tax year by tax year basis, under Section 179 of the Internal Revenue Code. The deduction limit is \$500,000 for tax years beginning in 2010 and 2011, and \$125,000 for tax years beginning in 2012

The new law also makes certain real property eligible for expensing. For property placed in service in any tax year beginning in 2010 or 2011, the up-to-\$500,000 of property expensed can include up to \$250,000 of qualified real property (qualified leasehold improvement property, qualified restaurant property, and qualified retail improvement property).

Examples of improvements that may qualify are:

- Permanent lighting and electrical systems
- Plumbing systems, security and sprinkler systems
- Ceilings (acoustical panels, etc.)
- Windows, doors, etc.
- Flooring and new walls, etc.

The following improvements do not qualify for the expensing election:

- Enlarging or expanding existing building
- Common area structural components

Massachusetts and various other states do not allow bonus depreciation, but do allow Section 179. As part of our year-end tax preparation we can assist you with integrating both of these methods to maximize tax deductions.

To get the best tax result from your asset purchases and depreciation-related deductions, please contact Newburg & Company, LLP.

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