

Big Business Write-Offs Available

Article Highlights:

- PATH Act
- Section 179 Deductions
- Leasehold Property
- Restaurant Property
- Retail Improvements
- Bonus Depreciation
- Auto and Small Truck First-Year Write-Offs

With the enactment of the Protecting Americans from Tax Hikes (PATH) Act, Congress made two significant business-friendly changes in the tax law, extending bonus depreciation and making the Section 179 deduction's higher expensing amount permanent. This article examines these changes so that you can take full advantage of them in your trade or business.

Section 179 Deduction – This provision allows a business owner or entity to immediately expense, rather than capitalize (depreciate), the cost of new or used tangible property—both personal property and certain real property—placed in service during the tax year. The maximum amount is adjusted annually for inflation and is \$500,000 for 2016. However, based on Code Section 179, the maximum amount is reduced dollar-for-dollar by the cost of property placed in service during the tax year in excess of \$2,010,000 (for 2016; this is also inflation-adjusted annually).

The PATH Act also dealt with the option to revoke the Section 179 election without the consent of the IRS, making it permanent as well; however, once an election is made and revoked, it becomes irrevocable.

In addition, the PATH Act permanently allows the ability to apply Section 179 expensing to off-the-shelf computer software and qualified real property, which is defined as qualified leasehold or restaurant property and retail improvements. In addition, the \$250,000 expense limitation and the carryover limitations have been removed. Finally, air conditioning and heating units are eligible for expensing after December 31, 2015.

Bonus Depreciation – Although the PATH Act did not make bonus depreciation permanent, it extended it through 2019 by slowly phasing it out by reducing the bonus percentage. Bonus depreciation allows businesses to take a depreciation deduction in the first year that the property, which must be acquired new, is placed in service. This depreciation can be for as much as 50% in the years 2012 through 2017 before phasing out in 2018 and 2019; it will no longer be available after 2019 without further Congressional action. The following are the bonus depreciation percentage rates through 2019:

- 50% through 2017,
- 40% for 2018 and
- 30% for 2019.

Bonus depreciation generally applies to property with a class life of no more than 20 years. It also applies to:

- Qualified leasehold property (qualified interior improvement to nonresidential property after the building is placed in service).
- Certain fruit- or nut-bearing plants planted or grafted before January 1, 2020.

Luxury Automobile Rates – Bonus depreciation also impacts the first-year deduction for automobiles and small trucks; in the past, this has added \$8,000 to the first-year allowable deduction. Now that the bonus depreciation is being extended and phased out, so is the bonus allowance for automobiles and small trucks. Thus, the luxury auto rates will increase based on the following bonus depreciation rates:

- 2015 through 2017 – \$8,000
- 2018 – \$6,400
- 2019 – \$4,800

If you need assistance regarding strategies for your business's use of the Section 179 expense deduction or bonus depreciation, please call this office.