

# The Bonus Depreciation and Sec. 179 Increases Can Mean Big Savings for 2010 and 2011 Equipment Buyers

On Sept. 27, 2010 President Barack Obama signed the Small Business Jobs Act (SBJA). In addition to providing incentives for small business, the SBJA extended the depreciation bonus (2010 only) and raised Sec. 179 expensing limits through the end of 2011 to encourage equipment purchasing. The economic stimulus law can potentially mean big tax savings for you. This brochure is intended to help companies that are considering buying equipment in 2010 and 2011 understand the basics of the SBJA and answer common questions.

More information is available at [www.depreciationbonus.org](http://www.depreciationbonus.org). Also, be sure to consult with your tax professional.



This brochure has been developed by Associated Equipment Distributors as a public service to equipment buyers. ***It should not be construed as tax advice or as a promise of potential tax savings or reduced tax liability.*** For more information about the depreciation bonus, contact your tax professional or visit the Internal Revenue Service Web site at [www.irs.gov](http://www.irs.gov).

# The Small Business Jobs Act (SBJA) of 2010

Learn what's in it and how your business may benefit from the reinstated depreciation bonus and expanded Sec. 179 this year.

*The federal government has created tax incentives to help you save money on your '10 and '11 tax bills and free up cash now!*



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# You have questions. We have answers.

## The Nuts and Bolts of the Temporary Depreciation Bonus and Sec. 179 Increases Provided in the Small Business Jobs Act of 2010



## Quick Summary

To be eligible for the 2010 depreciation bonus, the equipment must meet the following requirements:

- The equipment must be depreciable under MACRS and have a depreciation recovery period of 20 years or less. The SBJA also allows the use of the depreciation bonus for certain types of water utility property, software and leasehold improvements. Check with your tax professional.
- The equipment must be new. In other words, the original use of the equipment must commence with the taxpayer claiming the depreciation bonus after Dec. 31, 2009 and before Jan. 1, 2011.
- The equipment must be purchased between Dec. 31, 2009 and Jan 1, 2011.
- The equipment must be placed in service before Jan. 1, 2011.

Certain equipment with a recovery period of 10 years or more and certain transportation property can be placed in service by Jan. 1, 2012, and still qualify for the depreciation bonus.

What exactly do the SBJA's capital investment incentives mean for my business?

By lowering your taxable income, the depreciation bonus (for new equipment) and Sec. 179 (for new and used equipment) can dramatically cut your 2010 and 2011 federal tax bills, thereby freeing up cash in the near term.

That sounds too good to be true. What's the catch?

The more you depreciate now, the less you'll be able to depreciate later. In other words, your tax bill in future years will be higher because you'll have less to deduct. But ask yourself this: Would you rather have the tax savings in your pocket now to invest in your company or would you rather have Uncle Sam hold on to your money for a couple of extra years? Additionally, some states do not recognize the depreciation bonus so using it may result in additional tax complexity.

How does the depreciation bonus work?

Companies that buy new equipment in 2010 can depreciate 50 percent of the cost in the first year, plus the percentage of the remaining basis in the equipment that would ordinarily be depreciable under the Modified Accelerated Cost Recovery System (MACRS).

For a \$100,000 piece of equipment with a five-year MACRS life, the first year depreciation under the ARRA would be \$60,000: \$50,000 depreciation bonus, plus 20 percent of the remaining \$50,000 in basis.

Does the equipment have to be new to qualify for the depreciation bonus?

**Yes.** To be eligible, the "original use" of the equipment must commence with the taxpayer claiming the depreciation bonus after Dec. 31, 2009.

If I'm leasing a piece of equipment and I decide to buy it, can I claim the depreciation bonus?

There is one very limited exception to the "new" requirement. If Company A is leasing a piece of equipment (e.g., from a distributor) and Company A is the first and only user of the equipment (i.e., it hasn't been rented or leased to any other customer) and Company A converts the lease to a purchase within three months of the start of the lease period, then Company A may claim the depreciation bonus on the equipment. Check with your tax professional for more details.

How long do I have to take advantage of the depreciation bonus?

The depreciation bonus is temporary. To qualify, the

new equipment must be acquired and placed in service by the taxpayer claiming the depreciation bonus before Jan. 1, 2011.

Do I have to use the depreciation bonus?

**No.** The depreciation bonus is elective – it's your choice whether to use it. Note that the depreciation bonus also applies for both regular and alternative minimum tax purposes.

How did recent economic stimulus legislation change the Sec. 179 expensing law?

The SBJA increased the expensing limits under Sec. 179 of the Internal Revenue Code for any taxable year beginning in 2010 and 2011. For both tax years, companies can expense up to \$500,000 as long as total purchases in either year do not exceed \$2,000,000. For each dollar over, the eligible expensing amount correspondingly drops by one dollar. Thus, companies that spend more than \$2,500,000 on tangible personal property cannot take advantage of Sec. 179. (But they can still use the depreciation bonus.)

To qualify for Sec. 179, does the equipment have to be new?

**No.** Unlike the depreciation bonus, Sec. 179 expensing

can be applied to both new and used equipment. While the depreciation bonus applies during the 2010 calendar year, the Sec. 179 increases apply to any tax year beginning in 2010 and 2011.

Can Sec. 179 and the depreciation bonus be combined?

**Yes.** Companies eligible for Sec. 179 can also combine it with the depreciation bonus for even bigger tax savings.

Do the SBJA capital investment incentives apply only to construction equipment?

**No.** A broad range of tangible personal property (but not real estate) is eligible for special tax treatment this year.

Is foreign-manufactured equipment eligible for the depreciation bonus and Sec. 179?

Foreign-manufactured equipment is fully eligible for the SBJA's capital investment tax incentives, provided the other requirements of the law are met. And although there's been a lot of focus on the SBJA's "Buy American" language, the law does not in any way prevent foreign-manufactured equipment from being used on federal construction projects.