



CERTIFIED PUBLIC ACCOUNTANTS
Moving Your Business Forward

251 PROGRESS WAY • SUITE 200 • WAUNAKEE, WI 53597
PHONE: (608) 850-6545 • FAX: (608) 850-6246 • WWW.BREMSEARGROUP.COM

Dear Client:

We wanted to send out a quick reminder of depreciation related tax laws that provide incentives for businesses to invest in machinery and equipment by allowing for faster cost recovery of business property.

Generally, the cost of property placed in service in a trade or business can't be deducted in the year it's placed in service if the property will be useful beyond the year. Instead, the cost is "capitalized" and depreciation deductions are allowed for most property (other than land), but are spread out over a period of years. However, some tax provisions allow for immediate write-offs of qualifying personal property against taxable income.

Here are the details.

Expansion and extension of additional first-year depreciation (Bonus Depreciation)

Businesses are allowed to deduct the cost of capital expenditures (see property that qualifies below) over time according to depreciation tables/rates. The tax law extends and temporarily increases first-year depreciation provision for investment in **new** business property. For investments placed in service during 2011 (through December 31, 2012 for certain longer-lived and transportation property), the tax law provides for 100% additional first-year depreciation. 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 in 2012.

The law leaves in place the existing rules as to **what kinds of property qualify** for additional first-year depreciation. Generally, the property must be (1) depreciable property with a recovery period of 20 years or less (This would include most business machinery and equipment); (2) water utility property; (3) computer software; or (4) qualified leasehold improvements. Also the original use of the property must commence with the taxpayer – **used property doesn't qualify.**

Enhanced small business expensing (Section 179 expensing)

Small business taxpayers can elect, by using Section 179, to write-off most business machinery and equipment 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, and is often referred to as the “Section 179 election” or the “Code Section 179 election.”

In 2011 the maximum expensing amount for **new or used** qualified machinery and equipment is \$500,000. Once capital expenditures exceed \$2,000,000 the expensing amount begins to phase-out.

The amount of the Section 179 election is also limited by taxable income, meaning it can't be used to create a loss. However, an excess amount may be carried forward to offset taxable income in future years.

We hope this information is helpful. If you intend to purchase additional machinery and equipment before year-end, please call us so we can discuss the details of these tax laws with you.

Sincerely,

Bremser Group, Inc.