

## The Depreciation Bonus and Sec. 179 Increases *Can Mean Big Savings for 2013 Equipment Buyers*

On January 4, 2013, President Barack Obama signed the American Taxpayer Relief Act (ATRA). In addition to permanently extending the 2001/2003 tax cuts ("Bush tax cuts") for individuals with taxable income up to \$400,000 per year (\$450,000 for couples), the ATRA extended the 50 percent depreciation bonus and raised Sec. 179 expensing limits through the end of 2013 to encourage equipment purchasing. The new tax law can potentially mean big tax savings for you. This brochure is intended to help companies that are considering new equipment purchases in 2013 to understand the basics of the ATRA and answer common questions.

This brochure has been developed by Associated Equipment Distributors (AED) 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, visit [www.depreciationbonus.org](http://www.depreciationbonus.org), contact your tax professional or visit the Internal Revenue Service website at [www.irs.gov](http://www.irs.gov).

[www.depreciationbonus.org](http://www.depreciationbonus.org)

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# Thinking about construction equipment purchases in 2013?



The federal government has created tax incentives to help you save money on your 2013 tax bill and free up cash now!

# American Taxpayer Relief Act

Learn how your business may benefit from the depreciation bonus and Sec. 179 increases this year.

# American Taxpayer Relief Act

## You have questions We have answers

To be eligible for the 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 ATRA 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 original use of the equipment must commence with the taxpayer claiming the depreciation bonus after Dec. 31, 2012 (or after Dec. 31, 2011 if you are claiming the 2012 depreciation bonus).
- The equipment must be purchased between Dec. 31, 2012 and Jan. 1, 2014. Equipment for which a binding purchase contract was in effect before Jan. 1, 2013 is not eligible (but may be eligible for the 2012 depreciation bonus).
- The equipment must be placed in service between Dec. 31, 2012 and Jan. 1, 2014. Certain equipment with a recovery period of 10 years or more and certain transportation property can be placed in service before Jan. 1, 2015 and still qualify for the depreciation bonus. Check with your tax professional.

### What exactly do the American Taxpayer Relief Act (ATRA) capital investment incentives mean for my business?

By lowering your taxable income, the depreciation bonus and Sec. 179 can dramatically cut your 2013 tax bill, 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 onto your money for a couple additional years?

### How does the depreciation bonus work?

Companies that buy new equipment in 2013 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 ATRA 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, 2012 (or Dec. 31, 2011 if you are claiming the 2012 depreciation bonus).

### 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, 2014.

Examples of Potential Depreciation Bonus Tax Savings	
Equipment Cost	Potential Tax Savings (assumes highest tax bracket and no Sec. 179 expensing)
\$50,000	\$7,920
\$100,000	\$15,840
\$150,000	\$23,760
\$200,000	\$31,680
\$250,000	\$39,600
\$300,000	\$47,520
\$400,000	\$63,360
\$500,000	\$79,200

### Do I have to use the depreciation bonus?

**No.** You may elect out of depreciation bonus (meaning 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 ATRA change the Sec. 179 expensing law?

The ATRA increased the expensing limits under Sec. 179 of the Internal Revenue Code for any taxable year beginning in 2012. For the tax years beginning in 2012 and 2013, companies can expense up to \$500,000 as long as total purchases do not exceed \$2 million. 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.

### 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 ATRA 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.