If you are contemplating making capital equipment purchases within the next 12 months, you should consider accelerating these purchases into calendar year 2012 in order to take advantage of these income tax provisions before they expire. As more fully discussed below, the reduction in Code Sec. 179 expensing impacts, generally, only smaller businesses, and the elimination of bonus depreciation is, generally, but not exclusively, of interest to larger businesses.

Federal Tax Provisions Set to Expire on 12/31/12:

1) **<u>Internal Revenue Code Section 179 expensing</u>**
   a) Code Sec. 179 expensing is available, on an elective, asset-by-asset basis, for the following types of property, whether new or used ("section 179 property"):
      i) Machinery, equipment, and other tangible personal property
      ii) Most publicly sold computer software; some non-building land improvements; and some limited types of building improvements and buildings (certain leasehold, retail and restaurant improvements, and restaurant buildings).
   b) For tax years (calendar or fiscal) **<u>beginning in 2012</u>**, the election is available for up to $139,000 of section 179 property purchased and placed in service during the year (the dollar limit). However, the dollar limit is reduced, dollar for dollar, to the extent that the taxpayer's total section 179 property placed in service during the year is more than $560,000 (the phase-out rule).
   c) For tax years (calendar or fiscal) **<u>beginning in 2013 and later</u>**, the dollar limit is scheduled to further fall to $25,000 and the phase-out level to falls to $200,000. Also, the computer software described above will no longer qualify as section 179 property.

Planning Tip - If you otherwise qualify to expense equipment under Code Section 179, you will be able to claim up to an additional $114,000 in federal income tax deductions by accelerating your purchase to calendar year 2012 instead of waiting until calendar year 2013.

1) **<u>Bonus Depreciation (Code Section 168(k))</u>**
   a) Bonus depreciation is available to the following types of **new (not used) property ("qualified property")** and certain leasehold building improvements:
      i) Machinery, equipment, and other tangible personal property with a depreciation period of not more than 20 years
      ii) Most computer software and certain leasehold building improvements
   b) For tax years (calendar or fiscal) **<u>beginning in 2012</u>**, 50% bonus depreciation **<u>is available</u>** and results in a deduction of 50% of the cost of qualified property placed-in-service during 2012 and depreciation, under the regular depreciation rules, for the remaining 50% of the cost of the item over the item's assigned depreciation period (beginning with 2012).
   c) For tax years (calendar or fiscal) **<u>beginning in 2013,</u>** 50% bonus depreciation **<u>will no longer be available</u>** for property placed in service.

Planning Tip – Bonus depreciation provisions expire on 12/31/12. For 2012, the opportunity to claim bonus depreciation should be of most interest if you are placing into service section 179 property in excess of the dollar limits (determined after application of the phase-out rule). If you are in that situation and are currently planning to invest in qualified property at levels that don't maximize pre-2013 bonus depreciation benefits, you might consider accelerating your planned investments.