ISSUE BRIEF: BONUS DEPRECIATION ALLOWANCE

Bonus Depreciation is a special allowance that permits businesses to recover the cost of capital expenditures over time according to a depreciation schedule. Specifically, it allows businesses to recover the costs of capital expenditures made in a calendar year faster than the ordinary depreciation schedule would allow. Businesses may immediately write-off 100 percent of the cost of depreciable property (e.g., manufacturing equipment, computers, and computer software) acquired in the same calendar year for use in the United States.

**What is Bonus Depreciation?**

Bonus Depreciation is an income tax deduction that allows a taxpayer to recover the cost or other basis of certain property over several years. It is an annual allowance for the wear and tear, deterioration or obsolescence of the property. Specifically, the additional first-year depreciation deduction is equal to 100 percent of the adjusted basis of qualified property. Businesses should seek a professional tax consultant to determine if you qualify for Bonus Depreciation Allowance.

**Current State of Bonus Depreciation**

The Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010 extend and temporarily increase the bonus depreciation benefit to 100 percent for investments placed in service after September 8, 2010 and through December 31, 2011. For investments placed in service after December 31, 2011 and through December 31, 2012, the bill will extend the current 50 percent bonus depreciation.

**Time Period to Use Bonus Depreciation Allowance**

To be eligible for the 100 percent depreciation bonus, the equipment must meet the following requirements:

- The equipment must be depreciable under Modified Accelerated Cost Recovery System (MACRS) and have a depreciation recovery period of 20 years or less.
- The equipment must be new. In other words, the original use of the equipment must commence with the taxpayer claiming the depreciation bonus after Sep. 8, 2010 and before Jan. 1, 2012.
- **The equipment must be purchased between Sep. 8, 2010 and before Jan. 1, 2012.**
- **The equipment must be placed in service before Jan. 1, 2012.**

To qualify for the 50 percent bonus depreciation allowance, a taxpayer must meet all of the following tests:

- The taxpayer must have acquired the property after December 31, 2007, and before Sep. 7, 2010. If a binding contract to acquire the property existed before Jan. 1, 2008, the property does not qualify for the special depreciation allowance.
- The property must be placed in service before Sep. 7, 2010.

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• The original use of the property must begin with the taxpayer after Dec. 31, 2007. In other words, the property must be “new” property.

**Example of 50 Percent Bonus Depreciation in Action**

Assume that before September 7, 2010, a company purchases new depreciable property and places it in service. The property’s cost is $1,000, and it is 5-year property subject to the half-year convention. The amount of additional first-year depreciation allowed is $500. The remaining $500 of the cost of the property is deductible under the rules applicable to 5-year property. Thus, 20 percent, or $100, is also allowed as a depreciation deduction in 2010. The total depreciation deduction with respect to the property for 2010 is $600. The remaining $400 cost of the property is recovered under otherwise applicable rules for computing depreciation.