

TAX COMPLIANCE & PLANNING TRENDS

New Tax Law Raises Expense Deduction on New Business Equipment

In December, 2006, Congress issued Rev. Proc. 2007-16, which allows the Section 179 expensing election on new business equipment to be claimed or revoked on amended returns for 2003 through 2009. Previously, the election was only allowed on originally filed tax returns. Taxpayers who overlooked it were not allowed to claim the election on amended returns. This is good news for C corporations, in particular, since they are allowed to deduct their own Section 179 expenses in addition to what is claimed on the Form 1040s of their owners.

Here are the details:

Most new business equipment can be either depreciated over its useful life or expensed immediately under Internal Revenue Code Section 179. The maximum deduction is based on the following schedule for the date in which the tax year *begins*. Each 1040 form, whether Single or Joint, is limited to one maximum. Section 179 expenses passed through via K-1s from partnerships (Form 1065), S-corps (Form 1120S), or trusts (Form 1041) are limited at the 1040 level to the one maximum amount. However, a C corporation is able to deduct its own Section 179 expenses in addition to what is claimed on the Form 1040s of the owners. (This is one of the many ways in which C corps can save thousands of dollars in taxes over S corporations).

The following table shows the federal maximums. Many states have not matched these amounts and have much smaller allowable deductions. In those cases, it is critical to maintain two sets of depreciation schedules; one for IRS and another for the state. Since the basis of an asset may be different for each tax agency, the gain or loss on its disposal will similarly be different.

Beginning Tax Year	Federal Allowable Maximum Deductions
2002	\$24,000
2003	\$100,000
2004	\$102,000
2005	\$105,000
2006	\$108,000
2007	\$112,000
2008	\$112,000 + COLA
2009	\$112,000 + COLA
2010	\$25,000

NOTE: For 2004 through 2009, the annual amounts are to be adjusted for inflation.

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