



2011 Depreciation Deduction Opportunity

Joel C. Farrar

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Investing in your business in 2011 may afford additional tax benefits. The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (Act) temporarily increases, from 50% in 2010 to 100% in 2011, the depreciation deduction available to a business that invests in certain personal property.

Internal Revenue Code Section 168(k) (Section 168(k)) now permits a business to deduct against its 2011 federal income tax liability 100% of the acquisition cost of qualifying personal property (i.e., machinery and other equipment) that the business places into service before December 31, 2011 (December 31, 2012 for certain assets). With a few exceptions, property that is placed in service in 2012 will qualify for a reduced 50% deduction, and the remaining 50% of the cost of such property will need to be amortized over the property's useful life.

The Act also increases the limits on an alternative deduction that is available under Internal Revenue Code Section 179 (Section 179) for qualifying personal property. The Section 179 deduction is now subject to the following limitations in 2011: (i) a \$500,000 cap on the total 2011 deduction, and (ii) a dollar-for-dollar phaseout of the deduction for each dollar above \$2,000,000 that the business invests in qualifying personal property during 2011. Also, a Section 179 deduction may not create or increase a net operating loss deduction, while a Section 168(k) may. Note that in 2012 the Section 179 limitations will decrease to a \$125,000 cap and a \$500,000 phaseout threshold, and will further decrease after 2012 to a \$25,000 cap and a \$200,000 phaseout threshold.

Michigan businesses in particular are urged to seek professional advice before claiming a deduction under Section 179 or Section 168(k), since a Section 168(k) federal deduction may not be claimed against the Michigan Business Tax (MBT) and a Section 179 deduction may be claimed on the MBT only if it is claimed on the business's federal tax return. Therefore, a Michigan business will need to compare the relative tax benefits of claiming a federal deduction under Section 168(k) and claiming a federal and state deduction under Section 179.

AUTHORS/ CONTRIBUTORS

Joel C. Farrar

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