

Which Is Best for Your Business: Section 179 or 100% Bonus Depreciation?

Taxpayers who acquire assets for use in their trade or business activity have a very good chance of writing off the entire cost, thanks to 100% bonus depreciation plus very generous Section 179 deduction limits. If there is a choice between them, this article will help determine which of these options is most beneficial. First, let's go over the basic rules for asset purchases.

The Section 179 deduction limit is \$500,000. This limit is reduced dollar for dollar (but not below zero) by the cost of qualifying property over \$2 million. So, no Section 179 deduction is available if the total cost of qualifying property placed in service during the year is \$2.5 million or more.

The 100% bonus depreciation provision effectively allows taxpayers to write off the entire cost of qualified assets placed in service during the year. However, specific deduction limitations apply for qualifying vehicles.

If both bonus depreciation and the Section 179 deduction are available, the taxpayer will have to choose one or the other. If that is the case, the following are some considerations to keep in mind.

The use of 100% bonus depreciation is mandatory. However, a business can elect not to deduct bonus depreciation for any class of property placed in service during the tax year. This election applies to all additions within a class placed in service that year. On the other hand, the Section 179 election is much more flexible. Not only is it available on an asset-by-asset basis, but taxpayers can also elect to expense less than the full amount of an asset's basis. In addition, the Section 179 deduction can be used for both new and used equipment; 100% bonus depreciation only applies for new equipment.

There is no limit on the amount of 100% bonus depreciation a business can claim for the year, nor is there a taxable income limit. This means that by claiming bonus depreciation, the taxpayer can create or increase a net operating loss (NOL) that can be carried back and possibly used immediately. On the other hand, the Section 179 deduction is limited to \$500,000 (reduced dollar for dollar by qualifying asset purchases exceeding \$2 million). It is also limited to the taxpayer's net trade or business income for the year, with any excess generally carried over to the following year.

The Section 179 deduction claimed on qualified real property cannot be carried over past the 2011 tax year (unless this provision is extended). Disallowed deductions remaining at the end of the 2011 tax year are treated as if no Section 179 expensing election had been made for them. Amounts not carried over past the 2011 tax year are depreciated under the normal rules for real

property.

To be eligible for the Section 179 deduction, the asset must be used more than 50% of the time for business. If the business usage later falls to 50% or less, the Section 179 deduction must be recaptured. Except in the case of listed property (e.g., passenger automobiles and computers), greater than 50% business usage is not a requirement for bonus depreciation. Therefore, bonus depreciation may be a better choice for an asset (other than listed property) currently used more than 50% for business if there's a chance that the business usage may later fall to 50% or less.

Finally, for taxpayers subject to alternative minimum tax, there is no adjustment for either bonus depreciation or Section 179 deductions.