U.S. Congress Passes Tax Extender Package

Taxpayers received a "gift" from Washington, D.C. It's the Protecting Americans from Tax Hikes Act of 2015 or, simply, the PATH Act. It does more than just extend expired tax provisions for another year. The bipartisan deal makes about one-third of these tax provisions permanent. An important provision for business owners related to Bonus Depreciation and Code Section 179 Expense. Read more to see how this impacts your business.The PATH Act of 2015 extends and modifies the bonus depreciation allowance to apply to qualifying property placed in service before January 1, 2020 (or before January 1, 2021 in the case of certain noncommercial aircraft and certain long production period property). In addition, the PATH Act makes permanent the Code Sec. 179 dollar and investment limitations of $500,000 and $2 million, respectively.

Bonus Depreciation

In addition to extending the bonus depreciation, a number of modifications have been made that:

- **reduces the bonus rate from 50 percent to 40 percent for property placed in service in 2018 and to 30 percent for property placed in service in 2019;**
- **for property placed in service after 2015, bonus depreciation on "qualified leasehold improvement property" is replaced with an expanded version of bonus depreciation on "qualified improvement property" that does not need to be placed in service pursuant to the terms of a lease;**
- **allows farmers to claim a 50 percent deduction in place of bonus depreciation on certain trees, vines, and plants in the year of planting or grafting rather than the placed-in-service year, effective for planting and grafting after 2015;**
- **reduces the $8,000 bump-up in the first year luxury car depreciation cap for passenger automobiles on which bonus depreciation is claimed to $6,400 for passenger automobiles placed in service in 2018 and to $4,800 for passenger automobiles placed in service in 2019; and**
- **extends long-term accounting method relief for bonus depreciation claimed on property placed in service in 2015 through 2019.**

Code Sec. 179 Expensing

Inflation adjustment. The dollar limitation and the investment limitation are adjusted for inflation for tax years beginning after 2015.

Air conditioning and heating units. For tax years beginning after December 31, 2015, air conditioning and heating units qualify as section 179 properties and can be expensed under Code Sec. 179.

Off-the-shelf computer software. The Code Sec. 179 expense deduction for off-the-shelf computer software has been made permanent.

Revocation of election. The rule that allows a taxpayer to revoke a Code Sec. 179 expense election without IRS consent has been made permanent. Qualified real property, pre-2016 and post-2015 rules. Qualified real property can be treated as eligible section 179 property for the Code Sec. 179 expensing allowance for tax years beginning after 2009 and before 2016. However, any amount disallowed by reason of the taxable income limitation may not be carried forward to a tax year that begins after 2015, and this amount is recovered through depreciation deductions as if no Code Sec. 179 election had been made.

For tax years beginning after December 31, 2015, the treatment of qualified real property as eligible section 179 property for the Code Sec. 179 expensing allowance has been made permanent. In addition, the $250,000 limitation on the amount of section 179 property that can be attributable to qualified real property is eliminated, and the corresponding provision on carry forwards of disallowed amounts attributable to qualified real property is removed.

The incentives for investing in business property are significant and must be coordinated. For example, Code Sec. 179 expensing is claimed prior to the additional depreciation allowance. In general, taxpayers should expense under Code Sec. 179, assets with the longest recovery (depreciation) period in order to accelerate the recovery of their costs. Planning for your capital and equipment acquisitions and retirements is essential.

If you have any questions about how these developments apply to you, or about any other aspects of this legislation, please contact: **David Schlein, CPA at Lumsden McCormick CPAs for more information.** David A. Schlein, CPA, Partner, Lumsden & McCormick, LLP, 716-856-3300, dschlein@lumsdencpa.com