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## SECTION 179 DEDUCTION

By Victor Sy, CPA, MBA

While the purchase of office and operating supplies allows you an instant deduction, property and equipment have to be depreciated over a number of years. Section 179 is a special section in the Internal Revenue Code that allows you to deduct the cost of the equipment in the year of purchase instead of spreading it over five to seven years. If you own a business, you may want to read on to learn how this tax tool can reduce your tax.

1. You may expense up to **\$500,000 of qualifying equipment for 2010 and 2011.**
2. The phase-out threshold is also increased to **\$2,000,000 for 2010 and 2011.**
3. The investment-based phase-out level for expensing is **\$560,000 for tax years beginning in 2012.**
4. Up to **\$250,000 of certain qualified real property** is eligible for Code Sec. 179 expensing for tax years beginning in **2010 and 2011.**
5. Take the election by preparing and attaching Form 4562 to your tax return.
6. The following properties **qualify**: Machinery, equipment, grocery counters, refrigerators, display racks, shelves, signs, elevators, vending machines, **off-the-shelf software**, etc.
7. The following properties do **not** qualify: Buildings, central heating and air-conditioning units, swimming pools, paved parking lots, docks, bridges, fences, properties used 50% or less for business in the year placed in service.
8. Any unused Section 179 expense may be carried forward for an unlimited number of years. If you have Section 179 passing through from an S corporation or partnership K-1, use those first before taking Section 179 on Schedule C assets. If you have a carryover to the current year, take the earliest taxable year first. If there is a sale of Section 179 property, increase the basis by any outstanding carryover.
9. TIP: If you **plan to purchase** major equipment over a number of years, structure your purchases so as not to surpass the phase-out threshold in any one year. This allows you to get the full benefit of the expensing option each year and not to lose out on succeeding years.
10. A husband and wife filing a joint return are treated as one taxpayer regardless of which spouse purchased the equipment. Married taxpayer filing separate tax returns are treated as one taxpayer. Divide the limit equally between the taxpayers unless they elect an unequal split, which is also allowed.

**CALIFORNIA** does not conform to this federal section 179 or bonus provisions:

1. It limits section 179 expense to **\$25,000** instead of the **\$500,000.**
2. It limits the placed-in-service threshold at **\$200,000** instead of the **\$2,000,000.**
3. It does **not** allow Section 179 deductions for **C corporations.**
4. C corporations can continue to elect the old 20% bonus depreciation up to **\$10,000.**

Before visiting your tax accountant, look at the bottom line of your profit and loss statement. If it shows an income that causes you to pay more taxes, suggest taking both Section 179 and bonus depreciation.

Good day!