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MAXIMIZING 2011 DEPRECIATION AND EXPENSING OPTIONS BEFORE THE RULES CHANGE FOR 2012

As 2011 draws to a close, we want to remind you about upcoming changes in the tax law. For many businesses, the largest 2011 tax-saving opportunity may be the enhanced depreciation deductions which are scheduled to become much less favorable beginning in 2012.

Bonus Depreciation: Currently, certain qualified assets acquired and placed in service through December 31, 2011 receive a first-year depreciation allowance of 100%. That means most **new** tangible property with a recovery period of 20 years or less and off-the-shelf computer software can be completely deducted in 2011. With a few exceptions, this 100% bonus depreciation is scheduled to drop to 50% in 2012 unless extended. Therefore, it is important to consider purchasing and placing in service qualifying assets by December 31, to reduce your 2011 tax bill and secure the 100% deduction in case it is not extended.

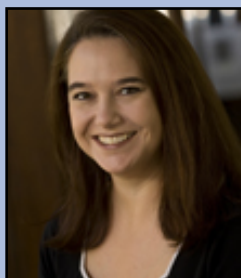
Section 179 Expensing: The Section 179 election also allows a 100% deduction for the cost of acquiring qualified assets, but it is subject to different rules than bonus depreciation. Unlike bonus depreciation, new **and** used assets can qualify for Section 179 expensing. However, there are a few other differences which make Section 179 expensing less beneficial to certain businesses, including:

- For 2011, the maximum amount a taxpayer may expense is \$500,000 and this limit is reduced if purchases exceed \$2 million for the year. Therefore, larger businesses may not benefit. Both the expense limit and asset purchase limits are scheduled to drop to \$125,000 and \$500,000, respectively, in 2012. So, there is incentive to acquire assets before the end of the year to obtain this benefit.
- The election cannot reduce net income below zero. So for businesses which may have losses for the year, it cannot be used to create or increase a net operating loss for tax purposes.

Taking these enhanced depreciation opportunities now means forgoing those deductions in the future. Future deductions might be more valuable if you have a flow-through business (such as a partnership or an S corporation) where the income is taxed on your personal return, since individual tax rates are expected to increase in 2013. Please consult your HBK tax professional to determine whether the larger 2011 deductions will prove beneficial to your business over the long-term.

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