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## **Code Section 179 Deduction Extended**

Generally, the cost of property placed in service in a trade or business must be "capitalized" and depreciated over a period of years, based on its useful life. However, the tax law extended the code section 179 expensing limit, which is an annual election to expense an accelerated amount of depreciation in the first year of service.

Subject to a dollar limit, the election allows you to deduct, in the tax year for which the election is made, the cost of qualifying property placed in service during the tax year. The deduction allowed is in lieu of depreciation deductions. For tax years beginning in 2007, the dollar limit is \$112,000 (up from \$108,000 in 2006). Based on the rate of inflation, the limit may be raised higher in 2008 and 2009. However, for tax years beginning after 2009 (i.e., 2010 and later) the dollar limit is scheduled to drop to \$25,000.

To qualify for the election, the property purchased must be "tangible personal" property. This means that real estate (land, buildings, and their structural components) does not qualify, nor do intangibles such as patent rights. However, for tax years beginning before Jan. 1, 2010, off-the-shelf computer software qualifies. Property acquired in a tax-free exchange does not qualify.

Also, several assets installed in commercial buildings are considered personal property rather than building components making them eligible for accelerated depreciation methods in the 5 to 7 year life category. Carpeting, removable partitions, and some electrical and plumbing equipment are among these assets, even if considered qualified leasehold improvements.

In addition to the type of qualifying property, there is a dollar limit cap of \$450,000 in 2007 before a "phase out" is applied. For example, if your total equipment purchases for the year total \$480,000, only \$82,000 will be allowed for the code section 179 deduction (\$112,000 less the \$30,000 excess over \$450,000). For tax years beginning after 2009, the phase out amount is scheduled to drop to \$200,000.

Another limitation for the expense deduction is your taxable income from your trade or business. If it is less than the \$112,000, the amount of the deduction is limited to your taxable income. However, any amount not currently deductible may be carried over to later years.

If you stop using the property in your trade or business, either by sale or other disposal, before the end of the 5 to 7 year life, some of the deduction must be "recaptured." The amount of recapture will depend on how long you used the property and its type.

Since this election is extended through 2009, you might consider stratifying your equipment purchases over the next three years to take advantage of the \$112,000 expense election in each year, adjusted for inflation in 2008 and 2009. Otherwise, your expense election will be limited to the \$112,000, if more is placed in service in one year.

Although many considerations go into your decision to acquire property, the code section 179 described above should be taken into account. The accelerated tax benefits may provide additional cash flows by utilizing reduced after-tax costs to acquire the property. Please call us to discuss this area and others in your business.

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