



## Federal Tax Incentives for Equipment Acquisitions 2012

### Section 179 Deduction:

The 'Tax Relief Act of 2010' signed 12/17/2010, extends the Section 179 deductions as well as Bonus Depreciation through the 2012 tax year. The 179 Deduction was created by the U.S. Government to encourage small businesses to purchase equipment. Essentially, Section 179 of the IRS tax code in 2012 allows businesses to expense up to \$125,000.00 (\$139,000.00 when adjusted for inflation) of the full purchase price of qualifying equipment and/or software purchased or financed during the tax year. For example, if you buy (or finance) a piece of qualifying equipment, you can deduct up to \$139,000.00 of the **PURCHASE PRICE** from your gross income. **A small business taking advantage of the 179 Deduction decreases its after tax cost of equipment acquisition.**

### KEY POINTS:

- ★ Allows businesses to write-off up to \$125,000.00 (\$139,000.00 when adjusted for inflation) of qualified capital expenditures (**new/used**) subject to a dollar for-dollar phase-out once these expenditures exceed \$500,000.00 (adjusted for inflation) for the tax year.
- ★ **New and Pre-Owned** equipment qualifies for this deduction.
- ★ Deduction cannot exceed taxable income for that year.
- ★ Computer software is eligible.
- ★ Deductions also include:
  - Some Title Vehicles

## **Bonus Depreciation:**

The 'Tax Relief Act of 2010' signed 12/17/2010, extends Bonus Depreciation through the 2012 tax year. Bonus Depreciation for 2012 is now 50% allowing businesses to expense 50% of qualified assets **Purchase Price** using first year Bonus Depreciation. Thus equipment expense for a business qualifying for bonus depreciation in 2012 would show 50% of the purchase price (as bonus) along with depreciation expense on the remaining equipment value (adjusted basis) in year one. Also, businesses that are not profitable in 2012 can use 50% Bonus Depreciation (New Equipment Only) and carry-forward the loss to future profitable years. When applying these provisions, Section 179 is generally taken first, followed by Bonus Depreciation – unless the business has no taxable profit in 2011. **By using Bonus Depreciation, businesses whether buying or financing can reduce their after tax cost of equipment acquisition.**

### **KEY POINTS:**

- ★ Only **new** equipment qualifies.
- ★ Qualified assets include **new** tangible property with a recovery period of 20 years or less (such as office furniture and equipment), off-the-shelf computer software, water utility property and qualified leasehold improvement property.
- ★ Bonus Depreciation deduction has no cap.
- ★ Certain vehicles qualify for bonus.

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**For complete details, or changes to the tax incentives, please visit [www.irs.gov](http://www.irs.gov) or contact the IRS helpline 800-829-4933**