

A Closer Look At The American Taxpayer Relief Act Of 2012

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The American Taxpayer Relief Act of 2012, signed into law on January 2, 2013, avoids the scheduled increases to individual income tax rates for most Americans *and* extends a host of expired and expiring tax provisions for both individuals and businesses. A sigh of relief has been heard as at least one portion of the fiscal cliff was narrowly averted. It also ends the long and acrimonious debate over the Bush-era tax cuts.

While there are many facets to the new law, this is a summary of principle tax provisions included in the Act that affect fixed assets management. Many of these provisions expired at the end of 2011 but have now been retroactively reinstated for 2012.

Bonus Depreciation

Chief among these latest tax provisions is the one-year extension of **50 percent bonus depreciation** through 2013 (through 2014, for property having a longer production period and certain aircraft). Bonus depreciation has obviously proven itself to be a successful economic stimulant, and this should be a most welcome incentive, enabling many businesses to purchase additional property and equipment in the coming year.

Furthermore, due to this extension of the provision for bonus depreciation, **luxury vehicles** (which include passenger automobiles and light duty trucks and vans) will continue to be able to claim an additional \$8,000 of first-year depreciation if placed in service in 2013. (This is, of course, provided you do not make the election *not* to claim bonus depreciation for five-year property.)

Section 179 Expensing

Yet another important provision extends the increased expensing limitation for Section 179 property. Without this provision in the Act, the allowable amount of Section 179 expense was scheduled to be reduced to \$139,000 in 2012 (and even less for 2013) with an investment limitation threshold of only \$560,000. (The investment limitation decreases the allowable Section 179 amount by one dollar for every dollar invested in qualifying property over the threshold amount.) Now, however, the Act has extended both the earlier 2011 **annual limit of \$500,000** of Section 179 expense and the **threshold limit of \$2 million**. These have been extended retroactively to tax years beginning in 2012, as well as for the 2013 tax year. (However, unless further legislation is passed, these Section 179 limitations are scheduled to become \$25,000 and \$200,000 respectively for tax years beginning in 2014.)

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In addition, the Act extends the eligibility of **off-the-shelf software** for Section 179 expensing through 2013 (a one-year extension) *and* allows Section 179 expensing of up to \$250,000 for qualifying **leasehold improvements, restaurant property, and retail improvement property** through 2013 (a two-year extension).

The Act also extends for two years, through 2013, the period for which the designation of an **empowerment zone** is in effect *and* extends the provision allowing an additional \$35,000 (or the cost of the qualifying property, if less) of Section 179 expense for such property. As before, only one-half of the eligible property's cost is to be used when calculating the investment limit phaseout amount.

MACRS Cost Recovery Periods

Many retail establishments and restaurants will be relieved to learn that the 15-year cost recovery period for qualifying **leasehold improvements, restaurant property, and retail improvement property** has been retroactively extended for such property placed in service in 2012, as well as for 2013. While such property must continue to use the straight-line depreciation method, being able to use this shorter recovery period is a huge tax benefit.

Also, most welcome is the two-year extension of an allowable seven-year recovery period for **motorsports entertainment complexes** placed in service through 2013.

Indian Reservation Property

The Act retroactively extends the provision for accelerated depreciation for qualifying property placed in service on an Indian reservation for the 2012 tax year, as well as allowing it for such property placed in service through 2013. MACRS property that qualifies as Indian reservation property is allowed to use shorter recovery periods, thereby accelerating depreciation deductions.

Mine Safety Equipment

The Act extends the opportunity for making a Section 179E election to expense 50 percent of the cost of advanced mine safety equipment through 2013. Rather than having to capitalize such property, a deduction for 50 percent of its cost may be taken in the year it is placed in service.

How to Get the Most From the New Tax Laws

One of the best ways to ensure you are taking advantage of the latest tax laws is through an automated fixed asset management solution, like [Sage Fixed Assets](#) [1]. The Sage Fixed Assets team is constantly monitoring tax laws to help ensure you always get the most from any changes. A trusted name in fixed asset management for 30 years, Sage Fixed Assets solutions provide comprehensive depreciation

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calculations for financial and tax reporting, asset inventory tracking and reconciliation, construction-in-progress management, and customized reporting so companies can effectively manage every step of the fixed asset lifecycle. For more information about Sage Fixed Assets, please visit www.SageFixedAssets.com [1].

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About Mary Balmer

Mary Balmer is a CPA with over ten years of tax and accounting experience in public accounting and private industry and more than 20 years of full life-cycle software development experience. Her accounting background includes the preparation of financial statements, reviews, audits, individual and business tax returns, cash flows, budgets, and payroll. Mary has been with Sage since 1992 and currently serves as Director of Research and Development.

Source URL (retrieved on 01/29/2015 - 10:39pm):

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