

Expensing Purchases of Business Assets – Change is in the Air

A business may elect to take an immediate expense deduction, as opposed to depreciation over several years, for tangible personal property and off-the-shelf software. Several changes in how this election works have recently been made. Further changes in the election may occur, depending on whether proposed legislation is passed. Businesses may want to accelerate their plans to purchase new equipment and software, if the current rules change at the end of 2005.

A business may elect to expense up to \$102,000 of the cost of tangible personal property and off-the-shelf software placed in service in 2004. The \$102,000 limit is indexed for inflation and may increase for 2005. The dollar limit will be reduced to \$25,000 for assets placed in service in 2006 and subsequent years.

The \$102,000 dollar limit is reduced dollar for dollar when qualifying property placed in service in 2004 exceeds \$410,000. The \$410,000 limit is also indexed for inflation in 2005. This limit will be reduced to \$200,000 in 2006 and subsequent years. The deduction for expensed assets is not allowed to the extent it creates or increases a net operating loss. Deductions that exceed this income limit can be used in future years.

Regulations issued by the Internal Revenue Service on August 4, 2004 allow a business to make or revoke an election to expense qualifying property without IRS consent on an amended return for the year for which the election or revocation applies, provided that the period for filing the amended return, normally three years from the filing date of the original return, has not expired. A previous election to expense part of the cost of an asset can be increased up to the full cost of the property on an amended return. A revocation of a prior election can be made in whole or in part. A revocation made on an amended return is irrevocable. The new regulations allow businesses more time to determine whether an election is advantageous or to correct prior choices.

Proposed legislation that is currently pending in Congress may change the expensing election. The House version of the bill (HR 4520) will extend the current dollar limits for another two years. The Senate version of the bill changes the reduction in the \$102,000 limit to a fifty percent reduction for each dollar of qualifying property in excess of \$410,000 that is placed in service.

If you would like more information about maximizing the tax breaks applicable to purchases of business assets, please contact Michael I. Stein, CPA at 312-384-4285.