



TAX ALERT

November 11, 2011

2011 Year-End Business Tax Planning

Business taxpayers, like all taxpayers this year, are confronted with uncertainty in year-end tax planning as 2011 ends. A number of business tax incentives are scheduled to expire after December 31, 2011 unless extended by Congress. As 2011 draws to a close, it is a valuable time to review some of these tax incentives and how they may be able to help your business' bottom line.

Bonus depreciation

Taxpayers are allowed to recover the cost of certain property used in a trade or business or for the production of income through annual depreciation deductions. The amount of the allowable depreciation deduction for a tax year is generally determined under the modified accelerated cost recovery system (MACRS), which assigns applicable recovery periods and depreciation methods to different types of property.

An additional first-year depreciation deduction equal to 100 percent of the adjusted basis of the property is available for qualified property acquired after September 8, 2010 and before January 1, 2012, and placed in service before January 1, 2012. Qualified property includes most new machinery, equipment and software. This additional depreciation deduction, known as "100 percent bonus depreciation" is temporary (unless extended by Congress). The bonus depreciation is scheduled drop to 50 percent for qualified property acquired after December 31, 2011 and before January 1, 2013. All bonus depreciation is scheduled to expire after December 31, 2012. Thus, businesses planning to purchase new depreciable property in the near future should try to accelerate the purchase into 2011 to take advantage of the 100 percent bonus depreciation, if doing so makes sound business sense. Remember, the property must also be placed in service before the end of 2011.

Code Sec. 179 expensing

Business taxpayers are allowed to expense up to a certain dollar amount in annual investment expenditures for qualified property. Qualified property includes most new or used machinery and equipment. The maximum amount that can be expensed is reduced by the amount by which the taxpayer's cost of qualified property exceeds a certain investment limit. For tax years beginning in 2010 and 2011, the Code Sec. 179 dollar limit is \$500,000 and the investment limit is \$2 million. The dollar limit is scheduled to fall to \$125,000 (indexed for inflation at \$139,000) and the investment limit is scheduled to fall to \$500,000 (\$560,000 indexed for inflation) after 2011. As a result, business taxpayers contemplating qualified purchases should weigh the benefits of accelerating those purchases into 2011. Keep in mind that Code Sec. 179 expensing is also allowed for off-the-shelf computer software placed in service in tax years beginning before 2012.

These business tax incentives are a good way to begin your year-end tax planning but are not the only strategies available to businesses. We will be sending you additional year-end tax strategies in the near future. Please don't hesitate to call us with questions or to discuss additional strategies for your year-end tax planning.

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