

Manufacturers are Counting Their Tax Blessings this Holiday Season



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Manufacturers waited years for legislation which would allow us to know the tax impact of our capitalization plans before the equipment was purchased and placed in service rather than after the fact. Our wait ended on December 18, 2015, when President Obama signed the PATH Act. Now we know which of our tax incentives are extended and for how long.

Here are two of our favorites, which accelerate depreciation (or expense the asset) in the first year an asset is placed in service.

- **Section 179** – Manufacturers with taxable income and current year property investments of less than \$2,010,000 may expense up to \$500,000 of qualifying property on their 2016 tax return. This includes heating and air conditioning units, which were previously excluded, and qualified leasehold improvement property, which was previously capped at a much lower amount of \$250,000. The PATH Act permanently extended this provision and updated the law to index the expensing and investment thresholds annually.
- **Bonus depreciation** – Manufacturers may expense 50% of the cost of qualified property in the year it's placed in service through 2017, which includes qualified improvement property. Starting in 2016, some of the more stringent requirements applicable to qualified improvement property, such as the leasehold and three year placed-in-service requirements, were removed, which means that more property may qualify for this provision. In 2018 and 2019, the rate is reduced to 40% and 30%, respectively. Qualifying passenger automobiles, trucks and vans, which generally are limited to first year depreciation of \$3,160 or \$3,460 without bonus depreciation, may deduct up to an additional \$8,000 with bonus depreciation through 2017; this amount decreases to \$6,400 and \$4,800 in 2018 and 2019, respectively.

Kentucky's and Indiana's treatment of these two provisions remains unchanged at this point in time, which limits the Section 179 deduction to \$25,000 and fully phases out when qualifying investments reach \$225,000. Neither state recognizes bonus depreciation.

If you have any questions, contact your Dean Dorton advisor or:

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