

## Depreciation

Depreciation expense is a non-cash expense allowed by the IRS to allocate the cost of a tangible asset over its useful life.

\*\*Additional first year bonus depreciation deduction is 100% for eligible assets till 2022. Applies to new and used property.

### **Accelerated Method (MACRS) & Useful Life allowed for tax deduction:**

-3 year	Software
-5 year	Office equipment, electronics, computers, vehicles
-7 year	Furniture, manuf. equipment, cell phones
-15 year	Parking Lots
-29.5 year	Residential Rental Real Estate
-39 year	Non-residential Real Estate
-NA	Land is not depreciated

Property must be:

- Owned
- Used in business for income producing activity
- Placed in service

The property is eligible for depreciation when it is placed in service and ready & available for its specific use - Not when actually purchased or used.

### **Section 179 Deduction:**

Internal Revenue Code Section 179 allows taxpayers to elect to deduct all or part of the cost of eligible assets (new or used) placed in service during the tax year instead of spreading the deduction out over the useful life.

#### **2021:**

Section 179 limit is \$1,050,000 on up to \$2.62 million qualifying property placed in service. (limit is indexed for inflation each year)

The new law also expands the definition of section 179 property to allow the taxpayer to elect to include qualified improvement property made to **nonresidential** real property after the date when the property was first placed in service. Qualified improvements property means any improvement to a building's interior including roofs, HVAC, fire protection systems, security systems. Improvements do not qualify if they are attributable to the enlargement of the building, any elevator or escalator or the internal structural framework of the building. These changes apply to property placed in service in taxable years beginning after Dec. 31, 2017.

**Note:** The Section 179 depreciation deduction cannot create or increase a loss for the taxpayer but it can be carried over to a future year.

### **Vehicle Depreciation Limits:**

Passenger Autos (including Trucks & Vans) placed in service during 2021 are subject to a maximum income tax depreciation amount under the "luxury auto rules". For 2021 the maximum first year depreciation deduction (with bonus depreciation & vehicle used more than 50% business) is \$18,100. This amount is subject to your business use %.

Per IRS a luxury auto is a four-wheeled vehicle, used on public roads, with a gross vehicle weight of 6000 pounds or less.