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Depreciation

I. Current Law

II. Cost Segregation

III. Code Section 179 Depreciation

IV. Bonus Depreciation

V. Comparing Section 179 and Bonus Depreciation

VI. Amortization

Current Law

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Method- MACRS

- Applies to tangible business property placed in service after 1986
- Assumes zero salvage value at the end of the recovery period of depreciable property
- MACRS consists of two systems- General Depreciation System and Alternative Depreciation System
- Most taxpayers will use GDS
- ADS is required when:
  - Listed property used 50 percent or less for business purposes
  - Tangible property used predominately outside the United States
  - Tax-exempt use and tax-exempt bond financed property
  - Certain farming property
  - Property imported from certain countries imposing trade restrictions or engaged in discriminatory trade practices

Current Law

Lives

- Assets with a 3, 5, 7, and 10-year recovery period are depreciated using a 200 percent declining-balance method
- Assets with 15 or 20-year recovery period are depreciated using a 150 percent declining-balance method
- Properties with 25, 27.5, 39, 50-year recovery period must be depreciated using the straight-line method

Current Law

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Type	Property Class	Description
Personal Property	3-year property	Special handling devices for food and beverage manufacture
	5-year property	Computers, Petroleum drilling equipment, Aircraft
	7-year property	Office Furniture, Fixtures, and Equipment
	10-year property	Vessels and water transportation equipment
	15-year property	Telephone distribution plants and sewage treatment plants
	20-year property	Municipal sewers
Real Property	27.5-year property	Residential rental property
	39-year property	Non-residential real property

Current Law

Common Bank Assets	
Property Class	**Description**
39-year property	Buildings and Improvements, Security System, Vault
15-year property	Leasehold Improvements, Parking Lots, Landscaping, Sidewalks
7-year property	Office Furniture and Fixtures
5-year property	Computers, Printers, Calculators, etc

Cost Segregation

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- Cost Segregation studies can assist taxpayers in identifying and quantifying costs buried in the cost of the land and building that qualify for faster depreciation deductions
- Cost Segregation studies are performed by professionals with expertise in tax and engineering
- They typically include a thorough review of blueprints, specifications, and cost data

Section 179 Depreciation

- Provides taxpayers an election to expense, rather than capitalize, a limited dollar amount of the cost of qualifying property placed in service during the taxable year

- Qualifying property includes:
  - Tangible personal property
  - Other tangible property (except buildings and structural components) used as
    - An integral part of manufacturing, production or extraction
    - A research or bulk-storage facility
  - Certain single purpose agricultural or horticultural structures
  - Storage facilities used in connection with distributing petroleum
  - Off-the-shelf computer software

- For 2014, the maximum deduction was $500,000 and the purchase limit was $2,000,000

- For 2015, the maximum deduction is $25,000 and the purchase limit was $200,000 (subject to change based on legislation by year-end)

Section 179 Depreciation- Pass Through Entities

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- Partnerships and S corporations must apply the annual deduction limit and earned income limit before passing through any Section 179 expense

- The annual deduction limit applies at both pass-through entity level and the owner level

- A pass-through entity cannot allocate a Section 179 deduction exceeding $25,000 and an owner cannot deduct a Section 179 expense exceeding $25,000 (subject to change)

- A taxpayer who owns interest in two or more pass-through entities could be allocated Section 179 deductions that exceed the taxpayer's annual deduction limit. If this occurs, the amount in excess of the limit is not allowed as a carry forward. The excess deduction is permanently lost unless the pass-through entities revoke an appropriate amount of their Section 179 deduction

- Taxpayers must reduce their basis in the pass-through entities as if the full Section 179 deductions had been allowed

- Trust are not eligible for Section 179 deduction

Bonus Depreciation

- Special depreciation allowance to recover part of the cost of qualified property, placed in service during the tax year
- Only allowed for the first year property is placed in service
- The rate is currently 50 percent of the depreciable basis
- Qualified property:
  - Original Use- new
  - Depreciable property with recovery period of 20 years or less
  - Computer software not subject to Section 197
  - Water utility property
  - Certain leasehold improvements
  - Certain noncommercial aircraft if placed in service before January 1, 2015

Electing out of Bonus Depreciation

- Taxpayers are permitted to elect out of bonus depreciation for any class of property and for any tax year
- Once the election is made, it can only be revoked with written consent of the IRS
- Taxpayers may benefit from making an election out of bonus depreciation if:
  - They have net operating losses that are nearing expiration
  - They anticipate being in a higher tax bracket in future years and need additional depreciation deductions to offset income in those future years

Comparing Bonus Depreciation and Section 179 Expensing

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When using both methods, the Section 179 election is deducted first and then take Bonus Depreciation

Requirement	Section 179	Bonus
Must be placed in service between certain dates?	No	Yes
Must be new property?	No	Yes
Annual Limit on amount	Yes	No
Do leasehold improvements qualify?	Yes	Yes
Can be acquired from a related party?	No	Yes

Amortization

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- A method of deducting a ratable portion of the cost of intangible property over its useful life

Expenditure	Amortization Period
Bond premiums	Bond Life
Lease Acquisition Cost	Lease Term
Start-up Cost	15 years
Goodwill	15 years
Core Deposits	15 years
Organizational Cost	15 years

? Questions ?

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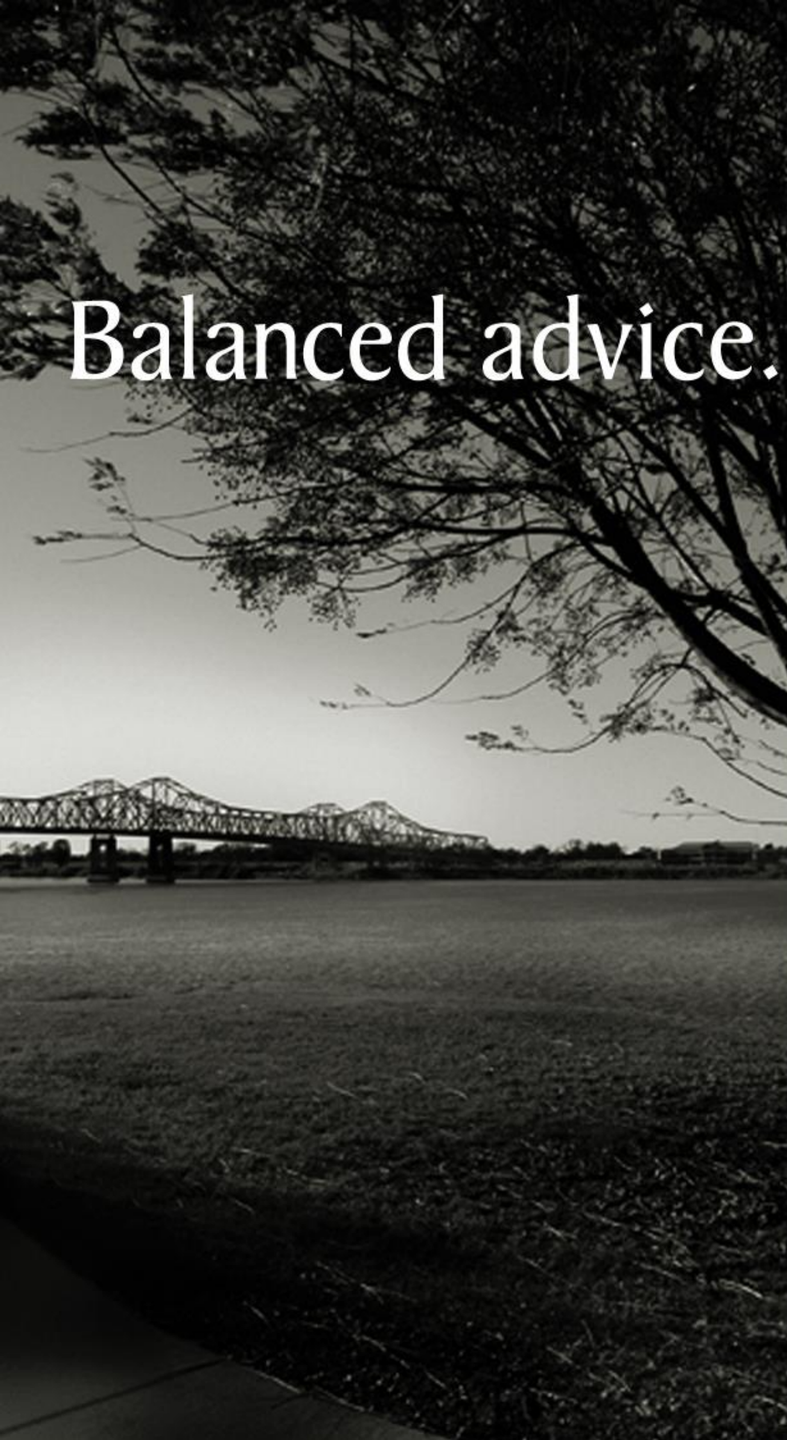

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