



TRJA of 2010

On **December 17, 2010**, President Barack Obama signed the **Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010 (TRJA)**. In addition to providing incentives for small business, the TRJA extended the depreciation bonus for 2011 and 2012 and extended Sec. 179 expensing limits through the end of 2012 to encourage equipment purchasing. The economic stimulus law can potentially mean big tax savings for you. This brochure is intended to help companies that are considering buying equipment in 2011 and 2012 understand the basics of the TRJA and answer common questions.

This brochure has been developed by Hawthorne Cat® as a public service to equipment buyers. This notification is for informational purposes only and should not be considered tax or legal advice.

Hawthorne Cat does not provide tax advice. Customers should always consult legal counsel, accountant, or tax advisor before making decisions.

To calculate your individual depreciation benefits and find more information on Bonus Depreciation and Sec. 179, visit www.depreciationbonus.org and www.section179.org

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TRJA

The Tax Relief, Unemployment Insurance Reauthorization and Jobs Reauthorization and Job Creation Act of 2010

***Bonus Depreciation
Extended for
2011 and 2012
Take Action Today!***



What exactly do the TRJAs capital investment incentives mean for my business?

By lowering your taxable income, the depreciation bonus (for new equipment) and Sec. 179 (for new and used equipment) can dramatically cut your 2011 and 2012 federal tax bills, thereby freeing up cash in the near term.

That sounds too good to be true. What's the catch?

The more you depreciate now, the less you'll be able to depreciate later. In other words, your tax bill in future years will be higher because you'll have less to deduct. But ask yourself this: Would you rather have the tax savings in your pocket now to invest in your company or would you rather have Uncle Sam hold on to your money for a couple of additional years?

How does the depreciation bonus work?

Companies that buy new equipment can depreciate 100 percent of the cost in the first year. For new equipment purchased in 2012, the bill provides for 50 percent depreciation bonus, plus the percentage of the remaining basis in the equipment that would ordinarily be depreciable under the Modified Accelerated Cost Recovery System (MACRS). For a \$100,000 piece of equipment with a five-year MACRS life, the first year depreciation under the ARRA would be \$100,000 in 2011 and \$60,000 in 2012: \$50,000 depreciation bonus, plus 20 percent of the remaining \$50,000 in basis.

What type of equipment is eligible?

To be eligible for the depreciation bonus, the equipment must meet the following requirements:

- The equipment must be depreciable under MACRS and have a depreciation recovery period of 20 years or less. The TRJA also allows the use of the depreciation bonus for certain types of water utility property, software and leasehold improvements. Check with your tax professional.
- The equipment must be new. In other words, the original use of the equipment must commence with the taxpayer claiming the 100 percent depreciation bonus after Sept. 8, 2010 through Dec. 31, 2011.
- For equipment placed in service after Dec. 31, 2011 to Dec. 31, 2012, this will be eligible for a 50 percent bonus depreciation bonus.
- For equipment placed in service between Jan. 1 to Sept. 7, 2010, the 50 percent depreciation bonus still applies.

Does the equipment have to be new to qualify for the depreciation bonus?

Yes. To be eligible for the depreciation bonus in 2011, the "original use" of the equipment must commence with the taxpayer claiming the depreciation bonus after Dec. 31, 2010.

If I'm leasing a piece of equipment and I decide to buy it, can I claim the depreciation bonus?

There is one very limited exception to the "new" requirement. If Company A is leasing a piece of equipment (e.g., from a distributor) and Company A is the first and only user of the equipment (i.e., it hasn't been rented or leased to any other customer) and Company A converts the lease to a purchase within three months of the start of the lease period, then Company A may claim the depreciation bonus on the equipment. Check with your tax professional for more details.

How long do I have to take advantage of the depreciation bonus?

The depreciation bonus is temporary. To qualify for 100 percent depreciation, the new equipment must be acquired and placed in service by the taxpayer claiming the benefit before Jan. 1, 2012.

Do I have to use the depreciation bonus?

No. The depreciation bonus is elective – it's your choice whether to use it. Note that the depreciation bonus also applies for both regular and alternative minimum tax purposes.

How did recent economic stimulus legislation change the Sec. 179 expensing law?

The Small Business Jobs Act of 2010 (SBJA) increased the expensing limits under Sec. 179 of the Internal Revenue Code for any taxable year beginning in 2010 and 2011. For both tax years, companies can expense up to \$500,000 as long as total purchases in either year do not exceed \$2,000,000. For each dollar over, the eligible expensing amount correspondingly drops by one dollar. Thus, companies that spend more than \$2,500,000 on tangible personal property cannot take advantage of Sec. 179. (But they can still use the depreciation bonus.) The TRJA extends the 179 expensing through 2012 but lowers the benefit to \$120,000 with a \$500,000 threshold.

To qualify for Sec. 179, does the equipment have to be new?

No. Unlike the depreciation bonus, Sec. 179 expensing can be applied to both new and used equipment.

Can Sec. 179 and the depreciation bonus be combined?

Yes. Companies eligible for Sec. 179 can also combine it with the depreciation bonus for even bigger tax savings.

Does the SBJA and TRJA capital investment incentives apply only to construction equipment?

No. A broad range of tangible personal property (but not real estate) is eligible for special tax treatment this year.

Count on Cat[®] Commercial Account FOR Rebuilds and Work Tools



Take advantage of the 2010
Small Business Jobs Act by
using Cat Commercial Account.

Extended for 2011

Customers can pay for rebuilds*, new gensets, new work tools, and other qualified new equipment, and receive:

- > **50% bonus depreciation** on the first year; regular depreciation on the remaining basis
- > Increased one-time expense allowance of **\$500,000** (must qualify - section 179) when the equipment is used in customer's trade or business and if purchases are made in 2011 (of no more than \$2,000,000 in new equipment)
- > *Customers should consult an accountant for more information or understanding on how to take advantage of these benefits.*
- > To find out more, please visit www.section179.org

* Rebuilds must not include more than 20% used parts of the total rebuild cost to qualify.

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- > By **Phone** at 1-888-CAT-8811
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