



## ***DIRECT EXPENSING***

### **STATUS**

On January 2, 2013, the President signed into law as Public Law 112-240, the American Taxpayer Relief Act, which increased the direct expensing allowance and asset purchase cap to \$500,000 and \$2,000,000 for 2012 and 2013. (In effect, a retroactive increase for 2012.) Neither number is indexed for inflation.

At the beginning of 2014, the amounts revert to pre-2003 levels of \$25,000 and \$200,000 without inflation indexing.

### **Recent Legislative History**

On May 23, 2003, Congress passed H.R. 2, the "Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA)," and President Bush signed it into law (P.L. 10-27) on May 28, 2003. The measure included a temporary increase that raised the direct expensing allowance for business from \$25,000 to \$100,000 for 2003, 2004, and 2005. The provision's phase-out threshold was increased from \$200,000 to \$400,000 over the same time period.

On October 22, 2004, the President signed into law the "American Jobs Creation Act of 2004" (H.R. 4520). The law extended for two years, through 2007, the increases in the direct expensing allowances and the phase-out threshold.

On May 25, 2007, President Bush signed into law the U.S. Troop Readiness, Veterans' Care, Katrina Recovery, and Iraq Accountability Appropriations Act which increased the \$100,000 and \$400,000 limit to \$125,000 and \$500,000, respectively, for taxable years beginning in 2007 through 2010. These amounts are indexed for inflation in taxable years beginning after 2007 and before 2011. With indexing, the amounts for 2008 were scheduled to be \$128,000 and \$510,000, respectively.

On February 13, 2008, President Bush signed into law H.R. 5140, Economic Stimulus Act of 2008, as Public Law 110-185. The law increases the \$128,000 and \$510,000 amounts under section 179 for taxable years beginning in 2008 to \$250,000 and \$800,000, respectively.

On February 17, 2009, President Obama signed into law H.R. 1, the American Recovery and Reinvestment Act, as Public Law 111-5. It extended the temporary increases of 2008 through 2009.

The Hiring Incentives To Restore Employment Act, signed into law on March 18, 2010, increased the direct expensing allowance to \$250,000 and the overall cap on equipment purchases to \$800,000. The temporary increase was set to expire at the end of 2010.

On September 27, 2010, President signed into law the “Small Business Jobs Act” (SBJA) as Public Law 111-240 that increased the allowance and phase out threshold for the direct expensing provision to \$500,000 and \$2,000,000, respectively, for the taxable years beginning in 2010 and 2011.

On December 17, 2010, President Obama signed into law as Public Law 111-312, the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act (TRUIRJCA). It permits taxpayers to use a direct expensing allowance in 2012 of \$125,000. The \$125,000 amount is reduced (but not below zero) by the amount by which the cost of qualifying property placed in service during the taxable year exceeds \$500,000. The \$125,000 and \$500,000 amounts are indexed for inflation. As a result, for 2012, the adjusted allowance was \$139,000 and the phase out was \$560,000.

## **BACKGROUND**

Internal Revenue Code Section 179 allows business to write off small amount of annual investment in capital assets such as machinery in the year of purchase in lieu of depreciating the investment over a number of years.

While it commonly referred to as a small business provision, there is no size limitation on business eligibility. The allowance is reduced and eliminated completely the more capital assets a business buys during the year, as will be explained later. As a result, the provision is generally not used by large businesses that make significant investments in equipment and machinery each year.

Qualifying property is defined as depreciable tangible personal property that is purchased for use in the active conduct of a trade or business. Off-the-shelf computer software placed in service in taxable years.

## **OUTLOOK**

The challenge is to get Congress to focus on the value of a permanent increase rather than resorting to the stimulus rationale.