



Training notes from the woods & the classroom

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Tax Tip for Loggers – Section 179 and Bonus Depreciation

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The desire to expense or write off the cost of newly purchased logging equipment has been a favored tax planning and savings technique for many logging businesses. The potential savings can be substantial and usually come in the form of two types of tax, self-employment tax and income tax. This article summarizes the expensing options currently available under federal tax law.

In general, depreciation is the deduction of the cost of an asset over its useful life. A logger who purchases logging machinery and equipment normally deducts the cost of the equipment over 5 years using the Modified Accelerated Cost Recovery System. Loggers also have two additional depreciation options available for current year purchases, Section 179 and Bonus Depreciation. Use of these alternatives can result in additional current year deductions and tax savings. Unlike regular depreciation, Loggers may, but are not required to claim Section 179 or Bonus Depreciation.

Section 179

To qualify for the Section 179 deduction, assets purchased must generally be tangible personal property, or certain other property, used in a trade or business. For 2011, the maximum amount of Section 179 deduction for all property placed in service during the year cannot exceed \$500,000. While the election to claim Section 179 is made on an asset by asset basis, both new and used property qualifies. Once qualified purchases total \$2,000,000, the deduction is reduced on a dollar for dollar basis and is completely eliminated when total qualified purchases equal or exceed \$2,500,000. The deduction is further limited to the taxpayer's taxable income from all active trades or businesses.

For 2012, the maximum Section 179 deduction is \$125,000 and \$25,000 for tax years after 2012. The dollar for dollar reduction begins at \$500,000 for 2012 and \$200,000 thereafter.

Bonus Depreciation

Bonus Depreciation, also referred to as Additional First Year Depreciation (AFYD) is a second alternative to traditional depreciation for many loggers. For 2011, the bonus depreciation deduction is 100% of the cost of qualifying property placed in service during the year. The property must be new (original use must begin with the taxpayer), used in a trade or business or for the production of income and generally have a MACRS recovery period of 20 years or less.

The deduction is claimed on a class by class basis (e.g. all 5 year property) and not by selecting particular assets to claim it on. Unlike Section 179, there is no income limitation nor is there a ceiling amount, thus, a logger may claim bonus depreciation on all qualifying assets regardless of the total amount of assets purchased or business income.

For 2012, bonus depreciation is reduced to 50% of the cost of qualifying property.

Tax Planning

Additional rules and considerations may apply to your particular situation, thus proper tax planning is an important aspect of a logging business and should not be overlooked. There are differences in qualifying property and eligible amounts under Section 179 and Bonus Depreciation. Moreover, future depreciation deductions will be reduced when Section 179 and/or Bonus Depreciation is claimed. AgStar Tax Consultants are available to advise and help you make the best, informed decisions for your business. Give us a call.

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