Tax Regulations for 2003

Deduct up to $100,000 of new investment in computer hardware and software.

Bonus depreciation has increased to 50% on qualifying assets.

The recent Jobs and Growth Tax Relief Reconciliation Act of 2003 lets business owners improve their operations and have the government help fund the effort! Invest now and reap the benefits that new equipment can offer while offsetting your investment for a faster payback with tax advantages available through the Jobs and Growth Tax Relief Reconciliation Act of 2003. Click here for more information.

Qualifying property continues to be defined as depreciable tangible personal property that is purchased for use in the active conduct of a trade or business. Generally, an election to expense these items is made on the taxpayer's return for the tax year to which the election relates. For 2003, 2004 or 2005, taxpayers may make or revoke the election on an amended return without IRS consent.

JGTRRA permits taxpayers to expense off-the-shelf computer software placed in service in tax years beginning in 2003, 2004 or 2005 as qualifying property (under current law off-the-shelf computer software generally is not deemed qualified property). In addition, taxpayers would be allowed to make or revoke expensing elections on amended returns without first securing the consent of the IRS. Cherry picking assets for use in Code Sec. 179 expensing continues as a worthwhile strategy to maximize tax savings. The election to expense may be applied against the entire cost or a portion of the cost of one or more items of qualifying property.

It is generally preferable to allocate the expense allowance to property with the longest recovery period. For example, if an item of 10-year MACRS property and item of 5-year MACRS property are placed in service, the expense allowance should first be allocated to the 10-year property. The cost of all of the property will then be recovered in the shortest possible period of time. JGTRRA does not change the rules governing deductibility under Code Sec. 162 or capitalization under Code Sections 263 and 263A. If a taxpayer can argue that a purchase qualifies as an ordinary business expense, rather than a capital asset with a useful life of more than one year, the entire purchase price is deductible in the year of purchase, without the need to elect expensing and use up part or all of the $100,000 limitation.

Bonus depreciation jumps to 50 percent for property acquired after May 5, 2003, and before January 1, 2005. Property does not qualify for 50 percent bonus depreciation if a binding written sales contract was in effect before May 6, 2003. In addition, the new enhanced bonus depreciation continues to apply on top of regular depreciation (as has been the case with the 30 percent bonus depreciation). As under JCWAA, taxpayers may elect out of the additional first-year depreciation.

This is a great time to make an investment in your business. Depending upon your marginal tax rate you could save as much as a third of your initial investment and cash outflow. The actual amount of benefit is subject to Section 179 rules, and you should always consult with your tax advisor before making any tax-related decisions.