



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

OFFICE OF THE CHIEF COUNSEL
179.00-00

October 28, 2010

Number: **2010-0241**

Release Date: 12/30/2010

CONEX-141948-10

UIL: 9999.98-00

The Honorable Jan Schakowsky
Member, U.S. House of Representatives
820 Davis Street, Suite 105
Evanston, IL 60201

Attention:

Dear Congresswoman Schakowsky:

I am responding to your inquiry dated October 6, 2010, to the Department of the Treasury, on behalf of your constituent,

. He wrote about a new equipment tax credit under the newly enacted Small Business Jobs Act of 2010 (Act). asked whether this tax credit applies to the payments he made in this year (2010) for equipment he purchased last fall in 20 .

The Act does not provide an equipment tax credit provision. However, the Act does include two cost recovery provisions providing tax incentives for taxpayers investing in depreciable equipment in 2010. The two tax incentives are: (1) an increased section 179 deduction amount for qualifying property for tax years beginning in 2010 and 2011, and (2) an extension of the additional first year depreciation deduction for eligible property placed in service in 2010 (or in 2011 for certain types of property).

The section 179 deduction allows a taxpayer to recover all or part of the cost of qualifying property, up to a limit, by deducting the cost for the year the taxpayer places the property in service. The taxpayer can elect the section 179 deduction instead of recovering the property's cost by taking depreciation deductions. However, the total amount a taxpayer can elect to deduct under section 179 is subject to certain limitations.

The Act increased the maximum total amount that taxpayers can elect to deduct under section 179 to \$500,000 for qualifying property they place in service in tax years

beginning in 2010 and 2011. For tax years beginning in 2009, the maximum total amount for the section 179 deduction was \$250,000.

The additional first year depreciation deduction allows a taxpayer to deduct 50 percent of the adjusted cost of depreciable eligible property in the tax year the taxpayer places the property in service. This deduction is commonly referred to as "bonus depreciation." To qualify for the bonus depreciation, the property must be new and acquired after 2007. In addition, taxpayers must place the property in service by a specified date. Prior to the Act, taxpayers had to place the property in service before 2010 to be eligible for the bonus depreciation (or before 2011 for certain long-lived property and transportation property). The Act extends the bonus depreciation for one year to apply to eligible property taxpayers place in service during 2010 (or during 2011 for certain long-lived property and transportation property).

If property qualifies for both the section 179 deduction and the bonus depreciation deduction, a taxpayer may elect to claim the section 179 deduction for the property. If the taxpayer does not elect to take a section 179 deduction for all of the cost of the property, he or she can claim the bonus depreciation deduction for 50 percent of the remaining cost of the property.

I hope our response is helpful. If we can assist you further, please contact me or _____, at _____.

Sincerely,

Kathleen Reed

Kathleen Reed
Chief, Branch 7
Office of Associate Chief Counsel
(Income Tax & Accounting)