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Depreciation and Section 179 Expense

Qualified property. For qualified property you acquire after May 5, 2003, you can take a special depreciation allowance that is equal to 50% of the property's depreciable basis. However, instead of claiming the 50% special allowance, you can elect to claim the 30% special allowance or elect not to claim any special allowance. Note: If you acquire qualified property in a like-kind exchange or involuntary conversion, the carried-over basis of the acquired property is eligible for a special depreciation allowance.

Section 179 limit. The limit on the section 179 expense deduction is increased to \$100,000 for qualified property (\$135,000 for qualified zone property, qualified renewal property, or qualified New York Liberty Zone property). This limit is reduced by the amount by which the cost of section 179 property placed in service during the tax year exceeds \$400,000.

Definition of section 179 property. The definition of section 179 property has been expanded to include off-the-shelf computer software placed in service in 2003. This is computer software that is readily available for purchase by the general public, is subject to a nonexclusive license, and has not been substantially modified. It includes any program designed to cause a computer to perform a desired function. However, a database or similar item is not considered computer software unless it is in the public domain and is incidental to the operation of otherwise qualifying software.

Section 179 expense election. A section 179 expense election (or any specification made in the election) made after 2002 can be revoked without IRS approval by filing an amended return. However, once made, the revocation is irrevocable.

Passenger automobile. The total depreciation deduction (including the section 179 expense and the special depreciation allowance) you can take for a passenger automobile (that is not a truck or van or an electric vehicle) that you use in your business and first place in service in 2003 is:

- ◆ \$7,660 if acquired before May 6, 2003, and you claim the 30% special allowance;
- ◆ \$10,710 if acquired after May 5, 2003, and you claim the 50% or 30% special allowance; or
- ◆ \$3,060 if you elect not to claim any special allowance for the vehicle or the vehicle is not qualified property, or the vehicle is qualified Liberty Zone property.

Caution: *The limits are reduced if the business use of the vehicle is less than 100%.*

Electric vehicle. The total depreciation deduction (including the section 179 expense and the special depreciation allowance) you can take for an electric vehicle that you use in your business and first place in service in 2003 is:

- ◆ \$22,880 if acquired before May 6, 2003, and you claim the 30% special allowance;

- ◆ \$32,030 if acquired after May 5, 2003, and you claim the 50% or 30% special allowance; or
- ◆ \$9,080 if you elect not to claim any special allowance for the vehicle or the vehicle is not qualified property, or the vehicle is qualified Liberty Zone property.

Caution: *The limits are reduced if the business use of the vehicle is less than 100%.*

Truck or van. The total depreciation deduction (including the section 179 deduction and the special depreciation allowance) you can take for a truck or van (such as a minivan or a sports utility vehicle built on a truck chassis) that you use in your business and first place in service in 2003 is higher than for other passenger vehicles. The maximum amount allowable is:

- ◆ \$7,960 if acquired before May 6, 2003, and you claim the 30% special allowance;
- ◆ \$11,010 if acquired after May 5, 2003, and you claim the 50% or 30% special allowance; or
- ◆ \$3,360 if you elect not to claim any special allowance for the vehicle or the vehicle is not qualified property, or the vehicle is qualified Liberty Zone property.

Caution: *The limits are reduced if the business use of the vehicle is less than 100%.*

Qualified nonpersonal use vehicle. A truck or van placed in service after July 6, 2003, that is a “qualified nonpersonal use vehicle” is not considered to be a passenger automobile (and is therefore not subject to the passenger automobile limits). A truck or van is a qualified nonpersonal use vehicle only if it has been specially modified with the result that it is not likely to be used more than a de minimis amount for personal purposes. For example, a van that has only a front bench for seating, in which permanent shelving has been installed, that constantly carries merchandise or equipment, and that has been specially painted with advertising or the company's name, is a vehicle not likely to be used more than a de minimus amount for personal purposes. -- 10-OCT-2003

Extension of Time To Take Advantage of Certain Tax Relief for Tax Years That Include September 11, 2001

Time to claim special depreciation allowances. For your tax year that included September 11, 2001, you may have until December 31, 2003 to:

- ◆ Claim the 30% special depreciation allowance (or Liberty Zone depreciation allowance),
- ◆ Elect the increased section 179 expense deduction for Liberty Zone property, or
- ◆ Depreciate Liberty Zone leasehold improvement property as 5-year property using the straight-line method of depreciation.

You may be eligible if:

- ◆ You placed qualified property (or Liberty Zone property) in service during your tax year,
- ◆ You timely filed your return for your tax year without claiming the special depreciation allowance or increased section 179 expense deduction, and
- ◆ You did not make an election not to claim the 30% special depreciation allowance.

If eligible, file an amended return for your tax year that included September 11, 2001, and any later affected tax years. In some situations, you may have to file [Form 3115 </pub/irs-fill/f3115.pdf>](#), Application for Change in Accounting Method. Use the procedures outlined in [Rev. Proc. 2003-50, 2003-50 IRB 119 </pub/irs-drop/rp-03-50.pdf>](#).

Half-year convention. You may be eligible for additional time to elect to apply the half-year convention instead of the mid-quarter convention to all property placed in service during your 2000 fiscal year or 2001 calendar or fiscal year, if:

The third or fourth quarter of your tax year included September 11, 2001;

You otherwise would have been required to use the mid-quarter convention under MACRS;

You timely filed your return for your tax year without making the election.

If eligible, you can make the election and any necessary adjustments resulting from the election by filing, by December 31, 2003, an amended return for your tax year that included September 11, 2001, and any later affected tax years.