

Depreciation: Bonus or Additional First-Year Depreciation (AFYD)*

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Introduction

Various legislation over the last nine years has allowed a special first year deduction for property put into service during designated time periods. Additional First-Year Depreciation or “Bonus Depreciation” was available in 2009 for qualifying property placed in service, or under a binding contract, during calendar years 2008 and 2009. Legislation in September of 2010 extended this deduction for calendar year 2010. (Also for 2011 for certain long-lived property and certain transportation property.) Bonus depreciation had not been available on any item placed in service after December 31, 2004, and before January 1, 2008. The following discussion provides the historic perspective, since these same rules apply to the 50% Additional First-Year Depreciation (AFYD) available during 2008 through 2010.

Example 1: W. Lee, a farmer, purchased and placed into service during the first 9 months of the 2009 tax year a new tractor for \$100,000, which is 5-year MACRS property (for *new* farm equipment and machinery placed in service during 2009). Farmer Lee chose to use the 50% AFYD.

The AFYD would be \$50,000 ($\$100,000 \times 50\%$). Farmer Lee would also claim MACRS depreciation on the remaining \$50,000, amounting to \$7,500 ($\$50,000 \times 15\%$). The 2009 total depreciation deduction for the tractor would be \$57,500 ($\$50,000 + \$7,500$).

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As a result of the Job Creation and Worker Assistance Act of 2002, there was an opportunity to claim a front-end additional depreciation deduction (equal to 30% of original cost) on any **new** asset placed in service on or after September 11, 2001. The 2003 act provided a 50% bonus depreciation for similarly qualified property placed in service after May 5, 2003, but before December 31, 2004. The Economic Stimulus Act of 2008 reintroduced a 50% AFYD on qualifying property and the American Recovery and Reinvestment Act of 2009 extended it through December 31, 2009. The Small Business Jobs and Credit Act of 2010 further extended this provision through December 31, 2010 (and 2011 as indicated previously).

This deduction had previously been referred to as bonus depreciation but is currently referred to as “Additional First-Year Depreciation” (AFYD). This special depreciation allowance is calculated after the Internal Revenue Code (IRC) Section 179 expense election. The AFYD is mandatory but can be “elected” out of on a class-by-class basis (an election can be viewed on the Sample Income Tax Return). While the IRC Section 179 expense election cannot create a Net Operating Loss, the AFYD can.

All three components, IRC Section 179, AFYD and MACRS, can be utilized on the same qualifying asset during the first year.

Example 2: W. Lee, from the prior example, purchased and placed into service during the first 9 months of the 2009 tax year a new tractor, 5-year MACRS property, at a cost of \$100,000. Farmer Lee chooses to use the Section 179 expense election for \$50,000 of the tractor and use the 50% AFYD.

The Section 179 depreciation deduction is \$50,000 as long as the income criteria for Section 179 is met.

The 50% AFYD would be applied to the remaining \$50,000, therefore \$25,000 ($\$50,000 \times 50\%$) of AFYD.

The remaining \$25,000 ($\$100,000 - \$50,000 - \$25,000$) would have the MACRS rate applied for an additional \$3,750 ($\$25,000 \times 15\%$) depreciation expense.

The 2009 total depreciation deduction for the tractor is \$78,750 ($\$50,000 + \$25,000 + \$3,750$).

IRS Publications

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IRS Publication 946: How to Depreciate Property. This publication specifically covers depreciation with great detail.

IRS Publication 225, Farmer's Tax Guide. This publication addresses many of the issues for depreciation including separate sections for: Depreciation, Chapter 7; Basis of Assets, Chapter 6; and Dispositions of Property Used in Farming, Chapter 9.

Additional Topics

This fact sheet was written as part of Rural Tax Education a national effort including Cooperative Extension programs at participating land-grant universities to provide income tax education materials to farmers, ranchers, and other agricultural producers. For a list of universities involved, other fact sheets and additional information related to agricultural income tax please see RuralTax.org.

Fact sheets that might be of particular interest include:

- Depreciation: An Introduction
- Depreciation: Class Life
- Depreciation: Cost Recovery Methods and Options
- Depreciation: Special Rules on Pickups, SUVs, Other Autos and Listed Property
- Depreciation: Election to Expense Qualifying Assets (Section 179 Deduction)
- Depreciation: Other Topics
- Depreciation: Alternative Minimum Tax Considerations
- Depreciating Your Home Office

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