

Say Goodbye to 100 Percent Bonus Depreciation

All good things must come to an end. On December 31, 2022, one of the best tax deductions ever for businesses will end: 100 percent bonus depreciation.

Since late 2017, businesses have used bonus depreciation to deduct 100 percent of the cost of most types of property other than real property. But starting in 2023, bonus depreciation is scheduled to decline 20 percent each year until it reaches zero in 2027.

For example, if you purchase \$100,000 in equipment for your business and place it in service in 2022, you can deduct \$100,000 using 100 percent bonus depreciation. If you wait until 2023, you'll be able to deduct only \$80,000 (80 percent).

Does this mean you should rush out and purchase business property before 2022 ends to take advantage of the 100 percent bonus depreciation? Not necessarily. For many businesses, an alternative is not going away: IRC Section 179 expensing.

Both IRC Section 179 expensing and bonus depreciation allow business owners to deduct in one year the cost of most types of tangible personal

property, plus off-the-shelf computer software. Both can be used for new and used property acquired by purchase from an unrelated party. Both also can be used to deduct various non-structural improvements to non-residential buildings after they are placed in service.

Moreover, the two deductions aren't mutually exclusive. You can apply Section 179 expensing to qualifying property up to the annual limit and then claim bonus depreciation for any remaining basis. Starting in 2023, when bonus depreciation will be less than 100 percent, any basis left after applying Section 179 and bonus depreciation will be deducted with regular depreciation over several years.

But there are some significant differences between the two deductions:

- Section 179 expensing is subject to annual dollar limits that don't apply to bonus depreciation. But the limits are so large that they don't affect most smaller businesses.
- Section 179 expensing requires more than 50 percent business use to qualify for and retain the Section 179 deduction. For bonus depreciation, you face the more than 50 percent business use requirement only for vehicles and other listed property.
- Unlike bonus depreciation, Section 179 expensing is limited to your net taxable

business income (not counting the Section 179 deduction) and cannot result in a loss for the year.

- The 2022 Section 179 deduction is limited to \$27,000 for SUVs. There is no such limit on bonus depreciation.
- You can use bonus depreciation to deduct land improvements with a 15-year class life, such as sidewalks, fences, driveways, landscaping, and swimming pools.

Generally, there is no great need to purchase and place the property in service by the end of 2022 to take advantage of 100 percent bonus depreciation. But there can be exceptions.

For example, if you own a rental property and want to make substantial landscaping or other land improvements, you'll get a larger one-year depreciation deduction using 100 percent bonus depreciation in 2022 than if you wait until 2023, when the bonus will be only 80 percent.

Buying an Electric Vehicle? Know These Tax Law Changes

There's good and bad news if you're in the market for an electric or plug-in hybrid electric vehicle.

The good news is that the newly enacted Inflation Reduction Act includes a wholly revamped tax credit for electric vehicles that starts in 2023 and continues through 2032.

The bad news is that the credit, now called the "clean vehicle credit," comes with many new restrictions.

The clean vehicle credit remains at a maximum of \$7,500. But beginning in 2023, to qualify for the credit,

- you will need an adjusted gross income of \$300,000 or less for marrieds filing jointly or \$150,000 or less for singles; and
- you will need to buy an electric vehicle with a manufacturer's suggested retail price below \$80,000 for vans, SUVs, and pickup trucks, or \$55,000 for other vehicles.

But that's not all. The 2023-and-later credit includes new domestic assembly and battery sourcing requirements.

The new law reduces or eliminates the credit when the vehicle fails the battery sourcing requirements. Currently, no electric vehicle will qualify for the full \$7,500 credit. Manufacturers are working feverishly to change this, but it could take a few years.

The new credit is not all bad—it eliminates the cap of 200,000 electric vehicles per manufacturer. Thus, popular electric vehicles manufactured by GM, Toyota, and Tesla can qualify for the new credit if they meet the price cap and other requirements. And then, starting in 2024, you can qualify for a credit of up to \$4,000 when purchasing a used electric vehicle from a dealer (not an individual). But income caps also will apply to this credit.

Also, starting in 2024, you'll be able to transfer your credit to the dealer in return for a cash rebate or price reduction. This way, you can benefit from the credit immediately rather than waiting until you file your tax return.

If you are locked out of the new credit because your income is too high or you wish to purchase a too-expensive electric vehicle, consider buying a qualifying electric vehicle (assembled in North America) on or before December 31, 2022.

If you buy an electric vehicle for business use in 2023, you have a second option: the commercial clean vehicle credit.