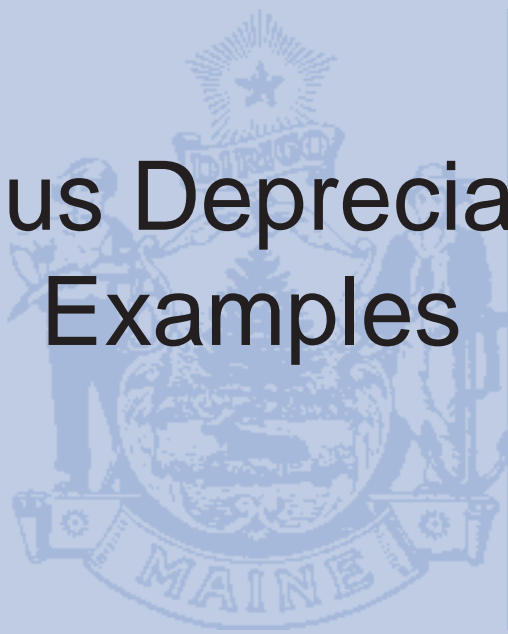




24 State House Station Augusta, ME 04333-0024

Guidance Document

Bonus Depreciation Examples



SUMMARY OF BONUS DEPRECIATION AND SECTION 179 EXPENSE INCOME MODIFICATIONS

Prior law required that the effect of any bonus depreciation claimed at the federal level be reversed for Maine purposes, through use an addition modification in the year the bonus is claimed. This addition modification was to be subsequently recovered evenly over three years beginning with year three of depreciation. The one exception to the law was with 3-year property, which was allowed a full recovery of the addition modification in year three.

The 2003 budget law left the addition modification the way it was, but it alters the recovery period to spread out over the entire asset-life of the property. For property placed in service in 2002, the recapture modifications begin with year-three of depreciation. For property placed in service in 2003 or later, 5% of the addition modification is recaptured in year 2, while the other 95% is evenly distributed over the remaining life of the asset, beginning in year 3.

This law change does not affect property placed in service in 2002 with an asset life of three or five years. Some examples follow.

EXAMPLE #1 – property placed in service in 2002:

| | | |
|--------------------------------------|-------------|--------------------------------|
| Asset purchase price = \$10,000 | 3-year life | 1st year depreciation = 33.33% |
| Regular MACRS depreciation = \$3,333 | | |
| Depreciation with bonus = \$5,333 | | |

Addition modification in year 1 = \$2,000

Recovery = \$2,000 in year 3

The law change does not affect 3-year depreciable property

Sample 3-year depreciable property:

Tractor units for use over-the-road

Race horses

Certain special handling devices used in manufacturing

EXAMPLE #2 – property placed in service in 2002:

| | | |
|--------------------------------------|-------------|--------------------------------|
| Asset purchase price = \$10,000 | 5-year life | 1st year depreciation = 20.00% |
| Regular MACRS depreciation = \$2,000 | | |
| Depreciation with bonus = \$4,400 | | |

Addition modification in year 1 = \$2,400

Recovery = \$800 in each of years 3-5

The law change does not affect 5-year depreciable property

Sample 5-year depreciable property:
Computers and peripheral equipment
Vehicles (cars, buses, trucks)

EXAMPLE #3 – property placed in service in 2002:

Asset purchase price = \$10,000 7-year life 1st year depreciation = 14.29%
Regular MACRS depreciation = \$1,429
Depreciation with bonus = \$4,000

Addition modification in year 1 = \$2,571

Recovery = \$514 in each of years 3-7

Sample 7-year depreciable property:
Office furniture, fixtures and equipment
Horses other than race horses
Mining assets

EXAMPLE #4 – property placed in service in 2002:

Asset purchase price = \$10,000 10-year life 1st year depreciation = 10.00%
Regular MACRS depreciation = \$1,000
Depreciation with bonus = \$3,700

Addition modification in year 1 = \$2,700

Recovery = \$338 in each of years 3-10

Sample 10-year depreciable property:
Vessels, barges and tugs not used in marine construction
Ship and boat building dry docks

EXAMPLE #5 – property placed in service in 2002:

Asset purchase price = \$10,000 15-year life 1st year depreciation = 5.00%
Regular MACRS depreciation = \$500
Depreciation with bonus = \$3,350

Addition modification in year 1 = \$2,850

Recovery = \$219 in each of years 3-15

Sample 15-year depreciable property:
Land improvements
Industrial steam and electric generation and/or distribution systems

For the following examples, assume that the 30% bonus depreciation option is selected and that no additional section 179 expensing is involved.

EXAMPLE #6 – property placed in service in 2003:

Asset purchase price = \$10,000 3-year life 1st year depreciation = 33.33%
Regular MACRS depreciation = \$3,333
Depreciation with bonus = \$5,333

Addition modification in year 1 = \$2,000

Recovery = \$100 in year 2
\$1,900 in year 3

Sample 3-year depreciable property:

Tractor units for use over-the-road
Race horses
Certain special handling devices used in manufacturing

EXAMPLE #7 – property placed in service in 2003:

Asset purchase price = \$10,000 5-year life 1st year depreciation = 20.00%
Regular MACRS depreciation = \$2,000
Depreciation with bonus = \$4,400

Addition modification in year 1 = \$2,400

Recovery = \$120 in year 2
\$760 in each of years 3-5

Sample 5-year depreciable property:

Computers and peripheral equipment
Vehicles (cars, buses, trucks)

EXAMPLE #8 – property placed in service in 2003:

Asset purchase price = \$10,000 7-year life 1st year depreciation = 14.29%
Regular MACRS depreciation = \$1,429
Depreciation with bonus = \$4,000

Addition modification in year 1 = \$2,571

Recovery = \$129 in year 2
\$489 in each of years 3 & 4
\$488 in each of years 5-7

Sample 7-year depreciable property:
Office furniture, fixtures and equipment
Horses other than race horses
Mining assets

EXAMPLE #9 – property placed in service in 2003:

Asset purchase price = \$10,000 10-year life 1st year depreciation = 10.00%
Regular MACRS depreciation = \$1,000
Depreciation with bonus = \$3,700

Addition modification in year 1 = \$2,700

Recovery = \$135 in year 2
\$321 in each of years 3-7
\$320 in each of years 8-10

Sample 10-year depreciable property:
Vessels, barges and tugs not used in marine construction
Ship and boat building dry docks

EXAMPLE #10 – property placed in service in 2003:

Asset purchase price = \$10,000 15-year life 1st year depreciation = 5.00%
Regular MACRS depreciation = \$500
Depreciation with bonus = \$3,350

Addition modification in year 1 = \$2,850

Recovery = \$143 in year 2
\$209 in each of years 3-5
\$208 in each of years 6-15

Sample 15-year depreciable property:
Land improvements
Industrial steam and electric generation and/or distribution systems

Also in 2003, a bill was enacted to reverse the effect of the federal increase in bonus depreciation (from 30% to 50%) and the increase in section 179 expense limits (PL 2003, c. 479). The addition and subtraction modifications for the 50% bonus depreciation are calculated exactly as they are for the 30% bonus depreciation in the examples above. The modifications for the increase in allowable section 179 expense is calculated in the same manner, in that any expense claim above the previous \$25,000 limit is reversed, with a similar calculation as used for bonus depreciation. Some examples follow.

EXAMPLE #11 – property placed in service in 2003:

Asset purchase price = \$110,000 3-year life
Section 179 expense claimed = \$100,000
Depreciation with § 179 = \$103,333

1st year depreciation = 33.33%
Section 179 (prior law) = \$25,000
Depreciation with prior § 179 = \$53,331
[[(\$110,000 – 25,000) * 0.3333] + 25,000]

Addition modification in year 1 = \$50,002

Recovery = \$2,500 in year 2
\$47,502 in year 3

Sample 3-year depreciable property:

- Tractor units for use over-the-road
- Race horses
- Certain special handling devices used in manufacturing

EXAMPLE #12 – property placed in service in 2003:

Asset purchase price = \$110,000 5-year life
Section 179 expense claimed = \$100,000
Depreciation with § 179 = \$102,000

1st year depreciation = 20.00%
Section 179 (prior law) = \$25,000
Depreciation with prior § 179 = \$42,000
[[(\$110,000 – 25,000) * 0.2] + 25,000]

Addition modification in year 1 = \$60,000

Recovery = \$3,000 in year 2
\$19,000 in each of years 3-5

Sample 5-year depreciable property:

- Computers and peripheral equipment
- Vehicles (cars, buses, trucks)

EXAMPLE #13 – property placed in service in 2003:

Asset purchase price = \$110,000 7-year life
Section 179 expense claimed = \$100,000
Depreciation with § 179 = \$101,429

1st year depreciation = 14.29%
Section 179 (prior law) = \$25,000
Depreciation with prior § 179 = \$37,147
[[(\$110,000 – 25,000) * 0.1429] + 25,000]

Addition modification in year 1 = \$64,282

Recovery = \$3,214 in year 2
\$12,214 in each of years 3-5
\$12,213 in each of years 6 & 7

Sample 7-year depreciable property:
Office furniture, fixtures and equipment
Horses other than race horses
Mining assets

EXAMPLE #14 – property placed in service in 2003:

| | | |
|---|--------------|--|
| Asset purchase price = \$110,000 | 10-year life | 1st year depreciation = 10.00% |
| Section 179 expense claimed = \$100,000 | | Section 179 (prior law) = \$25,000 |
| Depreciation with § 179 = \$101,000 | | Depreciation with prior § 179 = \$33,500 |
| | | $[(110,000 - 25,000) * 0.1 + 25,000]$ |

Addition modification in year 1 = \$67,500

Recovery = \$3,375 in year 2
\$8,016 in each of years 3-7
\$8,015 in each of years 8-10

Sample 10-year depreciable property:
Vessels, barges and tugs not used in marine construction
Ship and boat building dry docks

EXAMPLE #15 – property placed in service in 2003:

| | | |
|---|--------------|--|
| Asset purchase price = \$110,000 | 15-year life | 1st year depreciation = 5.00% |
| Section 179 expense claimed = \$100,000 | | Section 179 (prior law) = \$25,000 |
| Depreciation with § 179 = \$100,500 | | Depreciation with prior § 179 = \$29,250 |
| | | $[(110,000 - 25,000) * 0.05 + 25,000]$ |

Addition modification in year 1 = \$71,250

Recovery = \$3,563 in year 2
\$5,207 in each of years 3-11
\$5,206 in each of years 12-15

Sample 15-year depreciable property:
Land improvements
Industrial steam and electric generation and/or distribution systems