

2015 Depreciation and Accelerated Depreciation in Minnesota

Agricultural Business Management
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Note: *This information piece is offered as educational information only and is not intended to be tax, legal or financial advice. For questions specific to your farm business or individual situation, consult with your tax preparer.*

Passage of Extender Legislation: On Friday, December 18, 2015 the President signed into law the “**Protecting Americans from Tax Hikes (PATH) Act**” which extends numerous tax provisions. Some important tax provisions have been made permanent, while others were extended through 2016 or 2019. The bill, in final version was over 2,000 pages. The most notable provisions for agricultural producers include modifications to Section 179 and Bonus (additional first year) depreciation.

Pre-act, the dollar limit for Code Section 179 expensing for 2015 had reverted to \$25,000 with an investment limit of \$200,000. The act permanently sets the code section 179 expensing limit at \$500,000 with a \$2 million overall investment limit before phase out (both amounts indexed for inflation beginning in 2016).¹

Section 179 depreciation: For calendar year 2015 the maximum section 179 deduction is \$500,000. The investment limit (for qualifying property) is \$2 million.² Qualifying property includes: breeding

livestock, machinery, single-purpose agricultural structures (hog confinement buildings), and drainage tile.

Section 179 may be taken on qualifying property regardless of whether the asset is new or used. However, the asset cannot be purchased from a related party (lineal descendant).

Modifying Section 179 Depreciation: The provision permitting a taxpayer to amend or irrevocably change a Section 179 election (without IRS consent) is NOT in effect for tax years beginning after calendar year 2014.

A section 179 election of property to be expensed may not be revoked without IRS consent for tax years beginning after calendar year 2014 but can be revoked without IRS consent for tax years beginning before calendar year 2015 (but, if revoked, can't be re-elected). A taxpayer can make or revoke an expensing election on an amended return filed within the time prescribed by law for filing an amended return for the tax year for which the election was made. Prior to the filing season deadline, a taxpayer that elected to expense only part of the cost basis of property for particular tax year can file an amended return and expense any part of the cost basis of property that was not expensed under a prior code section 179 election.³

¹ National Association of Tax Professionals. www.natptax.com

² Ibid.

³ 2016 RIA Federal Tax Handbook. Thomson-Reuters. p. 2309

Bonus depreciation:

The new extender legislation also reinstates bonus depreciation (additional first-year depreciation) under a phase down schedule through 2019:⁴

- at 50% for 2015 through 2017;
- at 40% in 2018; and
- at 30% in 2019.

Please note that with bonus depreciation, the asset must be new or “first use”.

Ordering Rules for Depreciation:

Ordering rules for accelerated and regular depreciation used in combination are as follows:

- 1) Section 179
- 2) Regular depreciation

Minnesota law - Section 179 & Bonus Depreciation: MN did not fully adopt the Section 179 provision as modified in federal tax law. Due to several years of de-coupled section 179 and bonus depreciation, it is still important to recognize the previous add back rules for State of Minnesota returns. Please note that on the Minnesota return, an add back resulting from excess Section 179 or any bonus depreciation will affect State of Minnesota returns for the next four years.

In prior calendar years, Minnesota tax payers were required to add back 80 percent of the increased difference between the 179 expenses allowed federally and the amount allowed on a Minnesota income tax return.

Taxpayers had to re-compute federal Schedule 4562 for state purposes in order to figure the add-back amount. In each of the five years after the add-back is made, the

taxpayer is allowed to subtract (use) 20 percent of the remaining unclaimed amount.

This limitation applied to all business entities. In a partnership or S-corporation, the pass through to a partner or shareholder was first limited at the entity level. For example, if a partnership had a Section 179 expense of \$100,000, then the Minnesota flow through was limited to \$25,000.

In previous years when bonus depreciation was allowed on the Federal return, Minnesota had not adopted the federal bonus depreciation rules. Consequently, Minnesota taxpayers had to add back 80% of the claimed bonus depreciation and then take a subtraction of 20% over the next five years.

Example: George took bonus depreciation of \$50,000 in 2015. For Minnesota, he was required to add back 80% or \$40,000 ($\$50,000 \times .8 = \$40,000$) on his Minnesota return. He will take a subtraction of \$8,000 each year ($\$40,000 \times .2$) over the next five years.

Carry-over Section 179 and bonus depreciation on the State of Minnesota Return:

NOTE: In previous years (and currently), the state of Minnesota only recognizes section 179 expenses up to \$25,000. Any Federal Section 179 expense exceeding \$25,000 was spread out over a five year time period. Additionally, ALL bonus depreciation (also known as additional first-year depreciation) was also spread over a five-year period of time. The technical term Minnesota Department of Revenue uses for this practice is, “The 80% Add Back Rule.” This 80% Add Back Rule in effect, pushes accelerated depreciation into future years (only on the Minnesota tax return). Producers that have taken accelerated depreciation in prior years will have a certain amount of depreciation coming in as a

⁴ Wolters Kluwer. Congress Renews Extenders, Makes Many Permanent; IRS Budget Also Approved. CCH Tax Briefing. www.cchgroup.com/news-and-insights/federal-tax-legislation

current year depreciation expense for the 2015 Minnesota tax return (this amount will not show on the Federal return). If the producer does not have enough income on the Minnesota return to off-set the depreciation rolling to the current-year return, the prior-year depreciation **will be lost**. Under current State law, taxpayers cannot carry this expense forward to future years.⁵

This is a leading reason why you do not want to have a net operating loss. Producers in this situation should consider accelerating some sales so that you can use the carry-forward depreciation expense on the Minnesota return.

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⁵ Minnesota Department of Revenue.
www.mdor.gov



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