

Section 179 Expensing under the Federal and Minnesota Income Tax

What is section 179 expensing?

Income tax laws generally require businesses to spread deductions of capital expenditures over the useful lives of the purchased property. Section 179 expensing, which takes its name from a section of the Internal Revenue Code, allows businesses to deduct the entire amount of the cost of qualifying property in the tax year the property is placed in service, rather than claiming depreciation deductions over a number of years. This allows the business to accelerate recognition of the expense from future tax years into the present year. The number of years over which property would otherwise be depreciated ranges from three to 15 years, depending on the type of property and its useful life as classified under the Internal Revenue Code.

How much can be claimed under section 179 expensing under the federal income tax?

In tax year 2011, businesses can claim up to \$500,000 of property expenditures under section 179. If a business places more than \$2 million of qualifying property in service in the tax year, the amount allowed under section 179 is reduced dollar for dollar by the amount over \$2 million, so that businesses that place in service more than \$2.5 million in qualifying property are not eligible for section 179 expensing. For tax years 2010 and 2011 only, businesses may claim up to \$250,000 of expenditures for qualified real property as section 179 expensing.

What are the section 179 expensing allowances under the Minnesota income tax?

Minnesota does not conform to the federal section 179 expensing amount in effect in tax year 2011, and does not allow expenditures for qualified real property to be claimed as expensing. Instead, Minnesota allows the section 179 expensing amount in effect before tax year 2003, when the federal government embarked on a series of increases and extensions to the amount allowed as section 179 expensing.

In tax year 2011, a business may claim up to \$25,000 in expensing on its Minnesota return. This amount is reduced dollar for dollar by the cost of property placed in service over \$200,000, so that a business that places in service more than \$225,000 in qualifying property is ineligible.

If a business claims more than \$25,000 in section 179 expensing at the federal level, it must add 80 percent of the additional amount claimed to Minnesota taxable income on its Minnesota return. It is then allowed to subtract one-fifth of the amount added back in each of the next five tax years. In that way the full amount claimed at the federal level is ultimately allowed at the state level—20 percent in tax year 2011 and 16 percent per year in tax years 2012 through 2016.

What recent federal changes have been made in section 179 expensing?

In 2002 businesses could claim up to \$24,000 in section 179 expensing, and this phased out for businesses with total expenses from \$200,000 to \$224,000. The \$24,000 allowance was scheduled to increase to \$25,000 in 2003, but Congress temporarily increased the allowance to \$100,000. This was the first of nine Congressional actions that provided temporary increases in the maximum

allowance and the “phaseout” limit; Congress has also periodically indexed for inflation the temporarily increased amounts. This legislation is summarized in the following table.

**Summary of Federal Section 179 Legislation
2003-2012**

Year	Maximum deduction	Phaseout	Indexing	Expiration
2003	\$25,000, increased to \$100,000	\$200,000, increased to \$400,000	Yes for 2004 and 2005	2006
2004	No change	No change	Extended to 2006 and 2007	Extended to 2008
2006	No change	No change	Extended to 2008 and 2009	Extended to 2010
2007	Increased to \$125,000	Increased to \$500,000	Yes for 2008 to 2010	2011
2008 and 2009	Increased to \$250,000	Increased to \$800,000	No	2010
2010 and 2011	Increased to \$500,000	Increased to \$2 million	No	2012
2012	\$138,000	\$551,000	Yes, from 2007	2013

What is the recent history of section 179 expensing in Minnesota?

Minnesota conformed to the initial federal increase in section 179 expensing, which was effective for tax years 2003 through 2005. In those years, businesses could claim the same amount under the Minnesota tax as they could under the federal tax. Since then, the legislature has elected not to conform to the higher federal section 179 allowances.

Instead of conforming to the increased federal amounts, Minnesota law requires taxpayers to add to taxable income 80 percent of the additional amount of expensing allowed at the federal level in the first tax year, and then subtract one-fifth of the amount added back in each of the five following years.

What are the federal and state allowances?

Section 179 Allowances Under Federal and Minnesota Law

Tax year	Federal		Minnesota	
	Maximum deduction	Start of phaseout	Maximum deduction	Start of phaseout
2002	\$24,000	\$200,000	\$24,000	\$200,000
2003	100,000	400,000	100,000	400,000
2004	102,000	410,000	102,000	410,000
2005	105,000	420,000	105,000	420,000
2006	108,000	430,000	25,000	200,000
2007	125,000	500,000	25,000	200,000
2008-2009	250,000	800,000	25,000	200,000
2010-2011	500,000	2,000,000	25,000	200,000
2012	138,000	551,000	25,000	200,000

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