Indiana Bonus Depreciation and §179 Add-Backs

Indiana's non-acceptance of federal bonus depreciation creates extra taxable state income in the original year and reduced taxable state income in all of the remaining years so the net result over the years is zero.

This is done by requiring an "add back" be added to or subtracted from Indiana taxable income. This "add back" must be manually calculated and entered by the tax pro. This calculation is an easy one since TPS supplies both the federal and the state depreciation. The tax pro simply has to subtract the state depreciation from the federal for each asset.

Margaret Williamson example

textbook page 15.33 (attached)
IN textbook page 76-77 (attached)
7 year asset costing $3500, 50% bonus depreciation taken

	%-age	fed basis	fed depr		in basis	in depr	IN add back
2013	14.29%	$1,750	$2,000	*	$3,500	$500	$1,500
2014	24.49%	$1,750	$429		$3,500	$857	-$429
2015	17.49%	$1,750	$306		$3,500	$612	-$306
2016	12.49%	$1,750	$219		$3,500	$437	-$219
2017	8.93%	$1,750	$156		$3,500	$313	-$156
2018	8.92%	$1,750	$156		$3,500	$312	-$156
2019	8.93%	$1,750	$156		$3,500	$313	-$156
2020	4.46%	$1,750	$78		$3,500	$156	-$78
total			$3,500			$3,500	$0

* = made up of $1750 bonus plus $250 ($1750x14.29%) regular

The figure in the last column should be included on the state return as an add-back item on Schedule 1 line 5. Years 2 and later should be entered as negative numbers.

Similar calculations need to be done when a §179 deduction is taken for more than the $25,000 Indiana maximum §179. See chapter 15 in the Indiana textbook for an example.

Kentucky taxpayers have exactly the same situation since KY does not accept bonus depreciation and the §179 deduction maxs out at $25,000 just as IN's does. See the KY textbook for details.

In this course, we will limit our discussion of qualified property to tangible personal property depreciated under MACRS with a recovery period of 20 years or less. It is important to note that for this property to qualify, it must be purchased after December 31, 2007, and placed in service before January 1, 2014. The property must also meet the original use test, which generally means the taxpayer purchased the property new and was the first person to use the property.

Bonus depreciation has been constantly changing for the last few years in an effort to stimulate the economy. The last change was made in 2010. For the 2010 tax year, "bonus" depreciation allows a depreciation deduction of 100% for certain qualified property acquired after September 8, 2010, and placed in service prior to January 1, 2012. Generally, the requirements for the 100% allowance are the same as the requirements for the 50% allowance for qualified property acquired after December 31, 2007, and placed in service before January 1, 2014.

This course will inform you of many of the changes. However, understanding and implementing the changes requires a deeper dive into depreciation more than this course discusses. To continue your study, a good starting point would be the H&R Block *Intermediate Depreciation* course. If you encounter situations where you are not confident about how to calculate bonus depreciation, you are encouraged to turn to a senior Tax Professional for assistance. For those who want to study more, two good resources are IRS Publication 946, *How to Depreciate Property*, and the instructions for Form 4562. In all cases for the problems in this course, you will be informed as to whether or not "bonus" depreciation will be used.

■**Example:** On March 6, 2013, Meg Williamson purchased a new safe for use in her business office. The safe is 7-year property and cost $3,500. She claimed a 50% special depreciation allowance [$3,500 × 50% = $1,750], leaving $1,750 to depreciate normally. The normal depreciation deduction for each year is computed as follows.

2013	(year 1)	$1,750	×	14.29%	=	$250
2014	(year 2)	1,750	×	24.49%	=	429
2015	(year 3)	1,750	×	17.49%	=	306
2016	(year 4)	1,750	×	12.49%	=	219
2017	(year 5)	1,750	×	8.93%	=	156
2018	(year 6)	1,750	×	8.92%	=	156
2019	(year 7)	1,750	×	8.93%	=	156
2020	(year 8)	1,750	×	4.46%	=	78
				Total	=	$1,750

Meg's 2013 *Depreciation Worksheet* and Form 4562, page 1, are shown in Illustrations 15.17–15.18.■

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Depreciation

Overview

Indiana allows a deduction for depreciation and, in most cases, follows federal guidelines. In past years, Congress has made temporary adjustments to the depreciation rules in an effort to assist small business owners. One of the temporary changes Congress made was add the option of claiming "bonus depreciation" on the federal return. Indiana opted not to adopt this provision of tax law. Adjustments will need to be made on the Indiana return when taxpayers have opted to claim "bonus depreciation" on the federal return. Another difference between federal and Indiana tax law is that Indiana limits the Section 179 deduction to $25,000 per tax year. These differences in tax laws also will create adjustments to profit and loss when the assets are sold.

Objectives

At the conclusion of this chapter, you will be able to:

- Calculate the adjustment needed on the Indiana return when "bonus depreciation" has been claimed on the federal return.
- Correctly enter the required adjustment on the Indiana return.
- Identify when a section 179 adjustment is required on the Indiana return.
- Calculate the required adjustment needed when an asset is sold that has one adjusted basis for the federal return and another adjusted basis for the Indiana return.

Depreciation

Indiana recognizes the same methods of depreciation as used on the federal return with the exception of the special first-year depreciation allowance, or "bonus depreciation." Taxpayers who opt to claim "bonus depreciation" on their federal return are required to recalculate the depreciation deduction allowed on the Indiana return. The adjustment will be a positive adjustment (increase Indiana income) the first year the asset is placed in service when "bonus depreciation" is claimed on the federal return. In subsequent years, the adjustment will be a negative adjustment (reduce Indiana income), because the basis of the asset for depreciation on the Indiana return will not have been reduced by the "bonus depreciation" claimed.

Practice problem: Margaret purchased a new safe for use in her business. The safe is 7-year property and cost $3,500. Margaret opted to claim the 50% special depreciation allowance on her federal return. In this example, Margaret's depreciation deduction for the safe on her federal return will be $1,750 bonus depreciation + $250 of regular depreciation for a total deduction of $2,000. Indiana will require Margaret to recalculate the depreciation deduction disregarding the "bonus depreciation." Indiana will only allow a deduction of $500. The deduction is calculated by multiplying the total cost basis by the appropriate depreciation percentage from the MACRS table [$3,500 × 14.29% = $500]. The difference will have to be added back to Indiana income. Margaret will have to increase her total Indiana income by $1,500 for 2013. The solution to this practice problem can be found at the end of this chapter. You can check your answers.

Year	Depreciation allowed on Indiana return	Depreciation allowed on federal return	Adjustment required on Indiana return
2013	$3,500 × 14.29% = $500	$1,750 + $250 = $2,000	$2,000 – $500 = $1,500
2014	$3,500 × 24.49% = $857	$1,750 × 24.49% = $429	$429 – $857 = ($428)
2015	$3,500 × 17.49% = $612	$1,750 × 17.49% = $306	$306 – $612 = ($306)
2016			
2017			
2018			
2019			
2020			

The adjustment will have to be calculated for each asset for which the taxpayer opts to claim the "bonus depreciation." Once the total adjustment required is determined, the amount is entered on line 5 of Schedule 1 of Form IT-40. Remember to place a minus sign before the number if it is a negative adjustment. Solution to the practice problem is on page 79.

Schedule 1
Form IT-40, State Form 53995
(R4 / 9-13)

Schedule 1: Add-Backs
Instructions begin on page 13

2013

Enclosure
Sequence No. 01

Name(s) shown on Form IT-40

Your Social Security Number

Round all entries

1. Tax add back: certain taxes deducted from federal Schedules C, C-EZ, E and/or F 1 .00

2. Net operating loss carryforward from federal Form 1040, "Other income" line 2 .00

3. Income taxed on federal Form 4972 (lump sum distribution) 3 .00

4. Domestic production activities add-back 4 .00

5. Bonus depreciation add-back 5 .00

Section 179 Expense Deduction

Indiana limits the Section 179 deduction allowed per year to $25,000. Taxpayers claiming a Section 179 deduction on the federal return greater than $25,000 will have to recalculate the allowable depreciation deduction for their Indiana return. This computation is the same as the one for when the taxpayer claims "bonus depreciation." The depreciation on the amount of the Section 179 deduction that exceeds $25,000 will be calculated using the applicable percentage from the federal depreciation tables. The first year the asset is placed in service, the adjustment on the Indiana return will be a positive adjustment. In subsequent years, the adjustment will be a negative number.

Example: A small business owner purchases a piece of equipment for $39,000. On the federal return, he is eligible to claim a Section 179 deduction for the full cost of the equipment and chooses to do so. On the