A little less taxing

The Jobs and Growth Tax Relief Reconciliation Act of 2003 offers benefits to rental dealers

BY ED WINN III

The President's new tax package has at least three nifty provisions that will save rental dealers some tax dollars. These changes do not apply only to rental dealers, but also apply to business entities, in general, but will prove quite helpful to many rental dealers.

The first provision appears as an amendment to Internal Revenue Code section 179 concerning the expensing of personal property purchased for active trade or business. The rule beginning after 2002 was that a company could expense a maximum of $25,000 worth of personal property purchases. This amount was phased out dollar for dollar when the company placed into service qualified tangible property in excess of $200,000. So, if a rental dealer purchased less than $200,000 worth of property held for rental and other personal property, the company could expense $25,000 worth of purchases.

The new law applies to tax years after 2002 and before 2006 and raises the expense limit from $25,000 to $100,000. There is still a dollar-for-dollar phase out, but it does not kick in until the dealer has purchased $400,000 worth of personal property. What this means is that the higher expense allowance goes away completely when the company's investment in personal property reaches $500,000 in a given year. Under the prior law, the expense allowance went away after $225,000. Both the $100,000 and the $400,000 limits will be indexed for inflation for the tax years 2004 and 2005.

Also, there is no alternative minimum tax adjustment for use of this expense election. There are also higher expense limits for qualified zone property, qualified renewal property and Liberty Zone property, which may have some beneficial impact for a few dealers.

The bigger news, perhaps, for rental dealers is the expanded first-year depreciation bonus. Rental dealers should already be aware that after 9/11, Congress stepped in to give rental dealers and others a 30 percent bonus first-year depreciation deduction in an effort of stimulate the economy. The just-passed tax law increases the first year bonus from 30 percent to 50 percent. Rental dealers get to take 50 percent depreciation of new rental merchandise placed into service after May 5, 2003, right off the top and then take additional depreciation for what is left of the value of the merchandise in accordance with the three-year MACRS rules. This expanded depreciation bonus goes away for assets placed into service after December 31, 2004.

The full 50 percent bonus depreciation applies no matter when the property is placed into service during the tax year. There is no AMT depreciation adjustment if dealers use this bonus. Use of this depreciation method is voluntary and rental dealers are not obligated to use it for any tax year if their personal circumstances make it disadvantageous to do so. Rental dealers can still claim the 30 percent bonus or they can elect not to claim any additional depreciation beyond that dictated under three-year MACRS.

The third benefit, smaller than the other two, increases the first year depreciation for passenger automobiles by $7,650 instead of the $4,600 allowed under the 2002 law, as long as the automobile is qualified property and is also 50 percent bonus depreciation property. The requirements for an automobile to qualify for the higher depreciation are that its original use begins with the dealer after May 5, 2003, that it is acquired after May 5, 2003 and before January 1, 2005 and is predominantly used in the business. Presumably, dealers will have to use the 50 percent bonus depreciation on the automobile before being able to take this first year increased amount. This rule may or may not apply to a dealer's new Lexus, depending on whether is qualifies as an automobile used predominantly in the business.

The overall good news is that the new tax law should allow rental dealers to keep a little bit more of their money for a few years, anyway. And they say that the government never does anything for the little guy. ▪

For more information, contact Ed Winn III at edwinn@e-bylaw.com or call the APRO office at 800/204-2776 for a copy of the new legislation.