



MONTANO & ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

December 30, 2015

To Our Clients and Friends of the Firm:

In what is easily the most positive tax legislative action taken for small business in the past several years, Congress recently signed into law (on December 18, 2015) and made permanent the \$500,000 Section 179 expensing limit, thus enabling a small business to elect to expense up to \$500,000 of investment in new equipment and other qualifying property instead of having to depreciate the cost over a number of years.

In recent years, the \$500,000 limit and some other favorable aspects of the election have been extended for a year or two at a time, but sometimes these provisions weren't extended until December, leaving many taxpayers uncertain for most of a tax year as to whether the higher expensing limit and other favorable provisions would be extended. What's worse, the \$500,000 limit and other favorable provisions expired again at the end of 2014. Most dramatically, on January 1, 2015, the limit reverted to its old level of \$25,000 and the other favorable provisions also lapsed, once again plunging taxpayers into uncertainty.

We are happy to report the uncertainty is over. The recently enacted "Protecting Americans from Tax Hikes of 2015" (i.e., the 2015 PATH Act) makes the higher expensing limit and other favorable provisions permanent.

To provide a bit more detail, the new law, retroactive so as to not leave out tax years beginning in calendar year 2015:

- makes permanent the expensing of up to \$500,000 annually of the cost of qualifying property; as was true for earlier years for which the \$500,000 limit was in place, the amount of expensing allowed is subject to gradual reduction (down to zero) once the total qualifying property placed in service during the year exceeds \$2 million;

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- makes permanent the eligibility for expensing of most computer software;
- makes permanent the eligibility for expensing of qualified real property (certain leasehold building improvements, retail building improvements and restaurant property); and
- makes permanent the ability to revoke an election, or change its specifics, without IRS consent.

And, for tax years beginning after calendar year 2015 (post-2016) years), the new law:

- indexes both the \$500,000 and \$2 million limits for inflation;
- ends the exclusion from expensing of air conditioning and heating units; and
- removes the \$250,000 cap on qualified real property expensing; the capped expensing nevertheless also had to be applied against the \$500,000 limit.

All along, we had believed the \$500,000 limit on investment in new equipment (Section 179) would be extended beyond the end of 2014, but we were not sure. Now we can all eliminate any doubt about Congress' position on the matter.

I hope this information is helpful. If you would like more details about these changes or any other aspect of the new law, please do not hesitate to call us.

Very truly yours,

MONTANO & ASSOCIATES

Siegfried G. Montano, Jr., CPA

SGM/jlf