A Closer Look: The American Taxpayer Relief Act of 2012

School districts may be affected by the American Taxpayer Relief Act of 2012 with regard to fixed assets management and education entities.

By Mary Balmer, CPA

Signed into law on January 2, 2013, the American Taxpayer Relief Act of 2012 avoids the scheduled increases to individual income tax rates for most Americans *and* extends a host of expired and expiring tax provisions for both individuals and businesses. Taxpayers breathed a collective sigh of relief as at least one portion of the fiscal cliff was narrowly averted. The act also ends the long and acrimonious debate over the Bush-era tax cuts.

Although the new law has many facets, this article summarizes the principal tax provisions that affect fixed assets management and education entities. Many of those provisions expired at the end of 2011, but they have now been retroactively reinstated.

Bonus Depreciation

Chief among these latest tax provisions is the one-year extension of **50% bonus depreciation** through 2013 (through 2014 for property having a longer production period and certain aircraft). Bonus depreciation has obviously proved itself to be a successful economic stimulant, and it should be a most welcome incentive, enabling many businesses to purchase additional property and equipment in the coming months.

Furthermore, because of this extension of the provision for bonus depreciation, owners of **luxury vehicles** (which include passenger automobiles and light-duty trucks and vans) can continue to claim an additional $8,000 of first-year depreciation for vehicles placed in service in 2013. (That is, of course, provided they elect *not* to claim bonus depreciation for five-year property.)

Section 179 Expensing

Yet another important provision in the act extends the increased expensing limitation for Section 179 property. Without this provision, the allowable amount of Section 179 expense was scheduled to be reduced to $139,000 in 2012 (and even less for 2013) with an investment limitation threshold of only $560,000. (The investment limitation decreases the allowable Section 179 amount by one dollar for every dollar invested in qualifying property over the threshold amount.)

Now, however, the act has extended both the earlier 2011 **annual limit of $500,000** of Section 179 expense and the **threshold limit of $2 million**. These limits have been extended retroactively to tax years beginning in 2012, as well as for the 2013 tax year. (However, unless further legislation is passed, these Section 179 limitations are scheduled to become $25,000 and $200,000, respectively, for tax years beginning in 2014.)

In addition, the 2012 act extends the eligibility of **off-the-shelf software** for Section 179 expensing through 2013 (a one-year extension) *and* allows Section 179 expensing of up to $250,000 for qualifying **leasehold improvements, restaurant property, and retail improvement property** through 2013 (a two-year extension).

The act also extends for two years—through 2013—the period for which a designated **Empowerment Zone** is in effect *and* extends the provision to allow an additional $35,000 (or the cost of the qualifying property, if less) of Section 179 expense for such property. As before, only one-half of the eligible property's cost is to be used when calculating the investment limit phaseout amount.

Indian Reservation Property

The act retroactively extends the provision for accelerated depreciation for qualifying property placed in service on an Indian reservation for the 2012 tax year, as well as allowing it for such property placed in service through 2013. MACRS (Modified Accelerated Cost-Recovery System) property that qualifies as Indian reservation property is allowed to use shorter recovery periods, thereby accelerating depreciation deductions.

For Assistance

One of the best ways to ensure that you are taking advantage of the latest tax laws is through an automated fixed assets management solution that provides comprehensive depreciation calculations for financial and tax reporting, asset inventory tracking and reconciliation, construction-in-progress management, and customized reporting.

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EDUCATION STATISTICS FOR 2012–2013

- **Public school systems will employ about 3.3 million full-time-equivalent (FTE) teachers for 2012–2013, such that the number of pupils per FTE teacher—that is, the pupil/teacher ratio—will be 15.2. This ratio is lower than the 2000 ratio of 16.0. A projected 0.4 million FTE teachers will be working in private schools this fall, resulting in an estimated pupil/teacher ratio of 12.3, which is also lower than the 2000 ratio of 14.5.**
- **Public elementary and secondary schools will spend about $571 billion for the 2012–2013 school year. On average, the current expenditure per student is projected at $11,467 for this school year.**
- **About 3.4 million students are expected to graduate from high school in 2012–2013, including 3.1 million students from public high schools and 283,000 students from private high schools.**
- **The percentage of high school dropouts among 16- through 24-year-olds declined from 11.8% in 1998 to 7.4% in 2010. Although there have been declines in the Black and Hispanic dropout rates—which have traditionally been among the highest—dropout rates for Blacks and Hispanics remain higher than those for Whites and Asians.**

From the National Center for Education Statistics: www.nces.ed.gov