

February 3, 2015

ADVISORY: ADV 2015-02

Guidance on Section 179

The Rhode Island Division of Taxation is providing the following guidance to practitioners and taxpayers regarding the application of the Section 179 deduction.

“For assets placed in service on or after January 1, 2014, Rhode Island has recoupled with the federal treatment of Section 179 expensing; no modification is required on the Rhode Island return with regard to those assets,” said Rhode Island Tax Administrator David M. Sullivan.

“After federal legislation was enacted in December 2014 that changed key elements of the Internal Revenue Code with respect to Section 179 expensing, the Division of Taxation received inquiries from practitioners and software providers regarding how the changes would apply for Rhode Island tax purposes – especially regarding fiscal year taxpayers. Therefore, we are providing this guidance, which includes examples,” Sullivan added.

Background

The Internal Revenue Code § 179 limits were changed in December 2014, retroactive to January 1, 2014.¹

Rhode Island’s statute on Section 179 expensing is linked directly to federal law.²

As a result, under federal and Rhode Island law, the Section 179 deduction limit for 2014 became \$500,000. (It had been \$25,000). The overall limit on equipment purchases, before the Section 179 deduction begins to be reduced, became \$2 million. (It had been \$200,000.)

Rhode Island’s limits are therefore the same as federal limits for assets placed in service on or after January 1, 2014. (Click [here](#) to read a related Advisory issued in December 2014.)

Two-step process

“To determine how the changes apply to them, practitioners and taxpayers should employ a two-step process – regardless of whether the taxpayer uses a calendar year or fiscal year,” Sullivan said.

¹ Internal Revenue Code § 179, as amended by H.R. 5771, which became United States Public Law No: 113-295 on December 19, 2014.

² Rhode Island General Laws § 44-61-1.1, as amended by Rhode Island Public Law 2013, ch. 144, art. 9, § 1.

STEP # 1: Was the asset placed in service on or after January 1, 2014?

STEP # 2: If the answer to the question above is "yes," follow the federal rules.
If the answer to Step # 1 is "no," the Rhode Island Section 179 deduction limit is \$25,000.

Section 179 -- Examples³

The following examples serve to illustrate the principles outlined in this Advisory. The first group of examples is for calendar-year taxpayers; the second group is for fiscal-year taxpayers.

■ CALENDAR YEAR TAXPAYERS

- 1.) ABC Corp. placed an asset in service in December 2013. The \$25,000 Rhode Island limit applies.
- 2.) DEF Corp. placed an asset in service in February 2014. The Rhode Island limit, which is the same as the federal limit of \$500,000, applies.
- 3.) GHI Corp. places an asset in service in February 2015. The Rhode Island limit, which is the same as the federal limit of \$25,000, applies.

■ FISCAL YEAR TAXPAYERS

- 4.) JKL Corp.'s fiscal year ends June 30. It placed an asset in service in December 2013. The \$25,000 Rhode Island limit applies.
- 5.) MNO Corp.'s fiscal year ends June 30. It placed an asset in service in February 2014. The Rhode Island limit, which is the same as the federal limit of \$500,000, applies. That is because the asset was placed in service on or after January 1, 2014.
- 6.) PQR Corp.'s fiscal year ends June 30. It placed an asset in service in November 2014. The Rhode Island limit, which is the same as the federal limit of \$500,000, applies.
- 7.) STU Corp.'s fiscal year ends June 30. It places an asset in service in February 2015. The Rhode Island limit of \$500,000 applies. That is because the federal limits in the new federal law apply to taxable years beginning after 2009 and before 2015. In this example, the entity's fiscal year began July 1, 2014.
- 8.) VWX Corp. and YZ Corp. both use a fiscal year which ends June 30. VWX Corp. placed an asset in service in November 2014. YZ Corp. placed an asset in service in March 2015. The Rhode Island limit, which is the same as the federal limit of \$500,000, applies.
- 9.) AAZZ Corp.'s fiscal year ends November 30. The following table shows the Rhode Island Section 179 limit for AAZZ's fiscal year from December 1, 2013, to November 30, 2014, if AAZZ had placed all its assets in service in a particular month:

³ The names of entities in this Advisory are not intended to represent the names of actual entities.

Assets placed in service:	Rhode Island § 179 limit:
November 2013	\$25,000
December 2013	\$25,000
February 2014	\$500,000
August 2014	\$500,000
November 2014	\$500,000

The following table shows the Rhode Island Section 179 limit for AAZZ’s fiscal year from December 1, 2014, to November 30, 2015, if AAZZ had placed all its assets in service in a particular month:

Assets placed in service:	Rhode Island § 179 limit:
December 2014	\$500,000
March 2015	\$500,000
October 2015	\$500,000
December 2015	\$25,000

Although federal and Rhode Island law are now aligned regarding Section 179 expensing, the language in the recently enacted federal and state legislation differs in certain respects. Consequently, it is possible that the Rhode Island Section 179 limit of \$500,000 may apply to a fiscal-year taxpayer for two consecutive fiscal years – one ending in calendar 2014, the other beginning in calendar 2014. “This can benefit taxpayers,” Sullivan said.

Prior-year expensing

The Division of Taxation reminds taxpayers that, for assets placed in service prior to January 1, 2014, Rhode Island first-year expensing is limited to \$25,000. Assets placed in service prior to January 1, 2014, for which Section 179 expensing was claimed at the federal level, will continue to be subject to modification on the Rhode Island return – modification increasing income for Rhode Island tax purposes.

For example, AZA Corp. placed an asset in service in 2012, for which Section 179 expensing was claimed at the federal level. AZA Corp. thus was subject to modification on its 2012 Rhode Island return increasing Rhode Island income to the extent that the Section 179 expensing at the federal level exceeded the \$25,000 Rhode Island limit applicable at the time. Assuming a five-year life for the asset in this example, there would be a modification on AZA Corp.’s Rhode Island return, decreasing income for Rhode Island tax purposes for each remaining year in the five-year period.

Contact:
Neil Downing
Chief Revenue Agent
Rhode Island Division of Taxation
Neil.Downing@tax.ri.gov
(401) 574-8115