

STATE OF DELAWARE
DEPARTMENT OF FINANCE
DIVISION OF REVENUE
601 DELAWARE AVENUE
WILMINGTON, DELAWARE 19899

TAX NEWSGRAM 71-5

December 7, 1971

PERSONAL INCOME TAX

- "Bonus" depreciation adjustment

QUESTION: How will taxpayer include the additional depreciation allowable due to adjustments made in prior years?

For federal tax purposes taxpayers may have been allowed additional first year "Bonus" depreciation. This bonus depreciation has not been allowed for state tax purposes. Certain rules included:

- (1) The write off of 20% of the cost of the tangible personal property.
- (2) Was in addition to regular depreciation.
- (3) Have useful life of at least six years.

Beginning in 1971 this bonus depreciation is allowable to Delaware taxpayers. Where assets are acquired subsequent to 12/31/70 the federal and state basis will be the same. Where prior year depreciation was taken it causes a different basis for state tax purposes. Adjustments must be made and explained on the 1971 and subsequent returns for additional depreciation allowable for state tax purposes in cases of "bonus" depreciation prior to 1/1/71.

Example

Assume taxpayer had acquired \$10,000 equipment in each of 1968, 1969, and 1970 and in each of the three years had claimed the bonus depreciation. The useful life of the assets is 10 years. The deduction claimed on the \$30,000 in assets in 1971 for federal purposes would be computed as follows:

Cost of assets	\$30,000
Bonus depreciation \$2,000 each year	6,000
Basis for regular depreciation	<u>\$24,000</u>

Depreciation for federal purposes in 1971 would be (10% of \$24,000) \$2,400.

Depreciation for state purposes would be (10% of \$30,000) \$3,000.

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Taxpayer would be entitled to additional depreciation on
State return of \$ 600

This should be explained in detail on a separate sheet which
should be attached to the return.

NOTE: Records of taxpayer should indicate:

Asset acquired 1/1/68	\$10,000
Less: Bonus depreciation	<u>2,000</u>
Adjusted basis	\$ 8,000
Less depreciation each year (10% of 8,000) or	800
The same would be true for 1969 and 1970.	

For state purposes the account would read

Asset acquired 1/1/68	\$10,000
Less depreciation each year (10% of 10,000) or	1,000
The same would be true for 1969 and 1970.	

EDITOR'S
NOTE:

This adjustment will phase itself out some time in the
future.


J. H. Kennedy
Director of Revenue

jvm

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