

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

TAX NEWSGRAM 73-3

January 18, 1973

PERSONAL INCOME TAX

- "Bonus" depreciation adjustment.

QUESTION: What is the proper adjustment to be made if an asset on which bonus depreciation has been claimed prior to 1971 is traded for another asset?

In Tax Newsgram 71-5 dated December 7, 1971 the adjustment to the state return for "bonus" depreciation claimed on the federal return but not allowed on the prior state returns was explained. In the case of trade—an adjustment to basis would be required.

EXAMPLE:

Assume taxpayer had acquired \$10,000 equipment in January, 1968 and had claimed bonus depreciation. The useful life of the asset is 10 years. The asset is traded in January, 1972 for another like type asset. At time of trade-in he paid \$6,000 cash. His basis for depreciation would be computed as follows:

<u>Federal Return</u>		<u>State Return</u>	
Cost 1/68	\$ 10,000	Cost 1/68	\$ 10,000
Bonus depreciation	<u>2,000</u>		
Adjusted Basis	8,000	Depreciation 4 years @ 1,000	<u>4,000</u>
Depreciation 4 years @ 800	<u>3,200</u>	Adjusted basis date of trade-in	6,000
Adjusted Basis date of trade-in	4,800	Paid on trade-in	<u>6,000</u>
Paid on trade-in	<u>6,000</u>	State Adjusted Basis	<u>\$ 12,000</u>
Federal Adjusted Basis	<u>\$ 10,800</u>		

Assuming that the useful life of the new equipment is 10 years, depreciation in 1972 would be computed as follows:

<u>Federal Return</u>	<u>State Return</u>
10% of \$ 10,800 = \$ 1,080.00	10% of \$ 12,000 = \$ 1,200.00

NOTE: The difference in depreciation of \$120.00 should be shown on a separate schedule (Line 32) and an explanatory statement attached to the return.

The same adjustment should be made in subsequent years.

The Internal Revenue Code rules for "bonus" depreciation applies to the state tax for all acquisitions after January 1, 1971.


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