

# Accelerated Expensing

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Montana Department of Revenue

## Federal tax reform – HR 1

- 100% bonus depreciation and expanded eligible property
  - Expanded section 179 expensing
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# What are bonus depreciation and section 179 expensing?

Form **4562** **Depreciation and Amortization (Including Information on Listed Property)** OMB No. 1545-0047  
Department of the Treasury Internal Revenue Service (99) **201**  
Name(s) shown on return ▶ See separate instructions. ▶ Attach to your tax return. Identifying number

**Part I Election To Expense Certain Property Under Section 179**  
Note: If you have any listed property, complete Part V before you complete Part I.

1 Maximum amount (see instructions) . . . . . 1  
2 Total cost of section 179 property placed in service (see instructions) . . . . . 2  
3 Threshold cost of section 179 property before reduction in limitation (see instructions) . . . . . 3  
4 Reduction in limitation. Subtract line 3 from line 2. If zero or less, enter -0- . . . . . 4  
5 Dollar limitation for tax year. Subtract line 4 from line 1. If zero or less, enter -0-. If married filing separately, see instructions . . . . . 5

6	(a) Description of property	(c) Elected cost	
		(b) Cost (business use only)	

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## Bonus Depreciation by Sector

Sector	N Obs	Mean	Std Dev	Maximum	Sum	Percent of Total
Accommodation and Food Services	942	\$37,365	\$122,051	\$1,934,333	\$35,197,622	4%
Administrative and Support and Waste Management and Remediation Services	605	\$33,307	\$263,690	\$5,390,326	\$20,150,856	2%
Agriculture, Forestry, Fishing and Hunting	2,643	\$35,780	\$101,455	\$1,954,096	\$94,565,685	10%
Arts, Entertainment, and Recreation	333	\$29,535	\$109,217	\$1,065,169	\$9,835,057	1%
Construction	2,433	\$32,536	\$529,744	\$25,617,294	\$79,158,975	9%
Educational Services	209	\$6,816	\$62,948	\$774,723	\$1,424,486	0%
Finance and Insurance	1,086	\$14,083	\$137,053	\$3,803,927	\$15,294,355	2%
Health Care and Social Assistance	521	\$25,538	\$116,861	\$2,037,872	\$13,305,204	1%
Information	406	\$100,587	\$627,458	\$10,132,315	\$40,838,509	4%
Management of Companies and Enterprises	1,974	\$37,885	\$332,873	\$10,157,725	\$74,785,325	8%
Manufacturing	1,819	\$25,974	\$113,586	\$2,070,533	\$47,246,830	5%
Mining, Quarrying, and Oil and Gas Extraction	1,170	\$35,572	\$313,507	\$7,588,970	\$41,619,036	5%
Other Services (except Public Administration)	567	\$17,826	\$62,350	\$755,330	\$10,107,353	1%
Professional, Scientific, and Technical Services	2,014	\$9,640	\$74,767	\$1,857,101	\$19,415,462	2%
Real Estate and Rental and Leasing	3,042	\$36,876	\$423,637	\$18,837,522	\$112,177,636	12%
Retail Trade	1,499	\$58,953	\$280,095	\$4,131,367	\$88,370,953	10%
Transportation and Warehousing	554	\$224,718	\$1,769,550	\$24,044,815	\$124,493,569	14%
Utilities	44	\$333,735	\$1,332,106	\$6,349,707	\$14,684,357	2%
Wholesale Trade	1,077	\$60,958	\$678,108	\$15,030,599	\$65,651,680	7%

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## Section 179 Expensing by Sector

Sector	N Obs	Mean	Std Dev	Maximum	Sum	Percent of Total
Accommodation and Food Services	942	\$13,562	\$59,469	\$500,000	\$12,775,252	4%
Administrative and Support and Waste Management and Remediation Services	605	\$5,453	\$35,275	\$500,000	\$3,299,358	1%
Agriculture, Forestry, Fishing and Hunting	2,643	\$40,965	\$91,529	\$500,000	\$108,270,485	36%
Arts, Entertainment, and Recreation	333	\$8,394	\$40,096	\$500,000	\$2,795,349	1%
Construction	2,433	\$23,701	\$85,475	\$500,000	\$57,664,286	19%
Educational Services	209	\$648	\$8,047	\$115,871	\$135,369	0%
Finance and Insurance	1,086	\$2,195	\$22,528	\$500,000	\$2,383,228	1%
Health Care and Social Assistance	521	\$8,876	\$39,883	\$500,000	\$4,624,249	2%
Information	406	\$8,316	\$54,702	\$500,000	\$3,376,176	1%
Management of Companies and Enterprises	1,974	\$2,806	\$32,320	\$500,000	\$5,538,653	2%
Manufacturing	1,819	\$7,042	\$45,517	\$500,000	\$12,808,699	4%
Mining, Quarrying, and Oil and Gas Extraction	1,170	\$3,538	\$29,310	\$500,000	\$4,139,687	1%
Other Services (except Public Administration)	567	\$15,587	\$66,204	\$500,000	\$8,838,002	3%
Professional, Scientific, and Technical Services	2,014	\$4,713	\$32,060	\$500,000	\$9,491,392	3%
Real Estate and Rental and Leasing	3,042	\$2,855	\$29,662	\$500,000	\$8,684,142	3%
Retail Trade	1,499	\$12,736	\$56,845	\$500,000	\$19,091,724	6%
Transportation and Warehousing	554	\$31,385	\$102,469	\$500,000	\$17,387,529	6%
Utilities	44	\$15,888	\$56,350	\$285,376	\$699,084	0%
Wholesale Trade	1,077	16,302	77,510	500,000	17,557,299	6%

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## In State

Variable	Mean	Std Dev	Maximum	Sum	N
Bonus Depreciation	\$45,736	\$363,029	\$20,529,275	\$458,551,582	10,026
Section 179 Expensing	\$27,609	\$85,342	\$500,000	\$276,809,271	10,026

## Out of State

Variable	Mean	Std Dev	Maximum	Sum	N
Bonus Depreciation	\$30,921	\$454,197	\$25,617,294	\$450,118,181	14,557
Section 179 Expensing	\$1,564	\$18,966	\$500,000	\$22,759,816	14,557

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# Bonus Depreciation In State by Sector

Sector	N Obs	Mean	Std Dev	Maximum	Sum	Percent of Total
Accommodation and Food Services	703	\$32,536	\$99,971	\$1,533,150	\$22,873,083	5%
Administrative and Support and Waste Management and Remediation Services	171	\$40,087	\$113,731	\$951,371	\$6,854,815	1%
Agriculture, Forestry, Fishing and Hunting	2,388	\$32,247	\$73,191	\$1,385,015	\$77,005,444	17%
Arts, Entertainment, and Recreation	220	\$40,535	\$131,523	\$1,065,169	\$8,917,766	2%
Construction	1,139	\$36,080	\$134,869	\$2,880,201	\$41,095,471	9%
Educational Services	27	\$5,460	\$7,808	\$26,984	\$147,425	0%
Finance and Insurance	139	\$35,438	\$166,828	\$1,518,368	\$4,925,889	1%
Health Care and Social Assistance	286	\$36,024	\$153,678	\$2,037,872	\$10,302,724	2%
Information	73	\$416,495	\$1,379,740	\$10,132,315	\$30,404,148	7%
Management of Companies and Enterprises	45	\$349,923	\$761,117	\$2,837,427	\$15,746,529	3%
Manufacturing	314	\$53,233	\$151,167	\$1,364,970	\$16,715,271	4%
Mining, Quarrying, and Oil and Gas Extraction	188	\$127,772	\$734,356	\$7,588,970	\$24,021,180	5%
Other Services (except Public Administration)	418	\$21,260	\$69,274	\$755,330	\$8,886,562	2%
Professional, Scientific, and Technical Services	539	\$16,199	\$62,232	\$1,154,167	\$8,731,497	2%
Real Estate and Rental and Leasing	2,086	\$31,783	\$279,465	\$11,961,074	\$66,299,419	14%
Retail Trade	812	\$52,168	\$240,034	\$4,131,367	\$42,360,133	9%
Transportation and Warehousing	264	\$240,268	\$1,688,111	\$20,529,275	\$63,430,720	14%
Utilities	16	\$13,304	\$21,674	\$91,150	\$212,856	0%
Wholesale Trade	191	\$48,905	\$125,560	\$1,029,258	\$9,340,888	2%

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## Bonus Depreciation Out of State by Sector

Sector	N Obs	Mean	Std Dev	Maximum	Sum	Percent of Total
Accommodation and Food Services	239	\$51,567	\$170,726	\$1,934,333	\$12,324,539	3%
Administrative and Support and Waste Management and Remediation Services	434	\$30,636	\$303,131	\$5,390,326	\$13,296,041	3%
Agriculture, Forestry, Fishing and Hunting	255	\$68,864	\$235,597	\$1,954,096	\$17,560,241	4%
Arts, Entertainment, and Recreation	113	\$8,118	\$28,886	\$207,653	\$917,291	0%
Construction	1,294	\$29,415	\$715,404	\$25,617,294	\$38,063,505	8%
Educational Services	182	\$7,017	\$67,413	\$774,723	\$1,277,060	0%
Finance and Insurance	947	\$10,949	\$131,934	\$3,803,927	\$10,368,465	2%
Health Care and Social Assistance	235	\$12,777	\$35,852	\$284,646	\$3,002,480	1%
Information	333	\$31,334	\$201,667	\$2,105,489	\$10,434,361	2%
Management of Companies and Enterprises	1,929	\$30,606	\$312,801	\$10,157,725	\$59,038,796	13%
Manufacturing	1,505	\$20,287	\$103,209	\$2,070,533	\$30,531,559	7%
Mining, Quarrying, and Oil and Gas Extraction	982	\$17,920	\$111,281	\$1,959,707	\$17,597,856	4%
Other Services (except Public Administration)	149	\$8,193	\$34,918	\$382,302	\$1,220,791	0%
Professional, Scientific, and Technical Services	1,475	\$7,243	\$78,736	\$1,857,101	\$10,683,965	2%
Real Estate and Rental and Leasing	956	\$47,990	\$633,077	\$18,837,522	\$45,878,217	10%
Retail Trade	687	\$66,974	\$321,064	\$3,646,433	\$46,010,820	10%
Transportation and Warehousing	290	\$210,562	\$1,843,360	\$24,044,815	\$61,062,848	14%
Utilities	28	\$516,839	\$1,652,329	\$6,349,707	\$14,471,501	3%
Wholesale Trade	886	\$63,556	\$745,418	\$15,030,599	\$56,310,792	13%

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## Section 179 Expensing In State by Sector

Sector	N Obs	Mean	Std Dev	Maximum	Sum	Percent of Total
Accommodation and Food Services	703	\$16,684	\$65,045	\$500,000	\$11,729,016	4%
Administrative and Support and Waste Management and Remediation Services	171	\$16,503	\$58,841	\$500,000	\$2,821,986	1%
Agriculture, Forestry, Fishing and Hunting	2,388	\$44,665	\$95,131	\$500,000	\$106,661,136	39%
Arts, Entertainment, and Recreation	220	\$7,910	\$31,431	\$272,011	\$1,740,153	1%
Construction	1,139	\$45,248	\$115,352	\$500,000	\$51,537,316	19%
Educational Services	27	\$4,931	\$22,275	\$115,871	\$133,130	0%
Finance and Insurance	139	\$15,192	\$60,556	\$500,000	\$2,111,744	1%
Health Care and Social Assistance	286	\$15,772	\$52,714	\$500,000	\$4,510,664	2%
Information	73	\$43,194	\$123,358	\$500,000	\$3,153,185	1%
Management of Companies and Enterprises	45	\$82,339	\$162,629	\$500,000	\$3,705,261	1%
Manufacturing	314	\$36,363	\$100,614	\$500,000	\$11,418,045	4%
Mining, Quarrying, and Oil and Gas Extraction	188	\$18,366	\$68,719	\$500,000	\$3,452,757	1%
Other Services (except Public Administration)	418	\$20,973	\$76,398	\$500,000	\$8,766,877	3%
Professional, Scientific, and Technical Services	539	\$14,345	\$56,435	\$500,000	\$7,731,698	3%
Real Estate and Rental and Leasing	2,086	\$3,926	\$35,461	\$500,000	\$8,190,420	3%
Retail Trade	812	\$21,296	\$73,427	\$500,000	\$17,292,548	6%
Transportation and Warehousing	264	\$55,828	\$132,893	\$500,000	\$14,738,643	5%
Utilities	16	\$43,626	\$88,391	\$285,376	\$698,020	0%
Wholesale Trade	191	\$85,907	\$166,669	\$500,000	\$16,408,171	6%

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## Section 179 Expensing Out of State by Sector

Sector	N Obs	Mean	Std Dev	Maximum	Sum	Percent of Total
Accommodation and Food Services	239	\$4,378	\$37,284	\$492,754	\$1,046,235	5%
Administrative and Support and Waste Management and Remediation Services	434	\$1,100	\$17,583	\$364,765	\$477,372	2%
Agriculture, Forestry, Fishing and Hunting	255	\$6,311	\$27,523	\$272,681	\$1,609,349	7%
Arts, Entertainment, and Recreation	113	\$9,338	\$53,222	\$500,000	\$1,055,197	5%
Construction	1,294	\$4,735	\$35,522	\$500,000	\$6,126,970	27%
Educational Services	182	\$12	\$66	\$530	\$2,239	0%
Finance and Insurance	947	\$287	\$4,325	\$108,408	\$271,484	1%
Health Care and Social Assistance	235	\$483	\$4,641	\$67,384	\$113,585	0%
Information	333	\$670	\$4,907	\$61,492	\$222,991	1%
Management of Companies and Enterprises	1,929	\$950	\$17,728	\$500,000	\$1,833,392	8%
Manufacturing	1,505	\$924	\$13,442	\$400,038	\$1,390,655	6%
Mining, Quarrying, and Oil and Gas Extraction	982	\$700	\$8,563	\$220,113	\$686,930	3%
Other Services (except Public Administration)	149	\$477	\$2,164	\$20,351	\$71,125	0%
Professional, Scientific, and Technical Services	1,475	\$1,193	\$13,961	\$433,646	\$1,759,694	8%
Real Estate and Rental and Leasing	956	\$516	\$6,951	\$139,809	\$493,722	2%
Retail Trade	687	\$2,619	\$22,207	\$500,000	\$1,799,176	8%
Transportation and Warehousing	290	\$9,134	\$54,565	\$500,000	\$2,648,886	12%
Utilities	28	\$38	\$201	\$1,064	\$1,064	0%
Wholesale Trade	886	\$1,297	\$8,344	\$136,241	\$1,149,127	5%

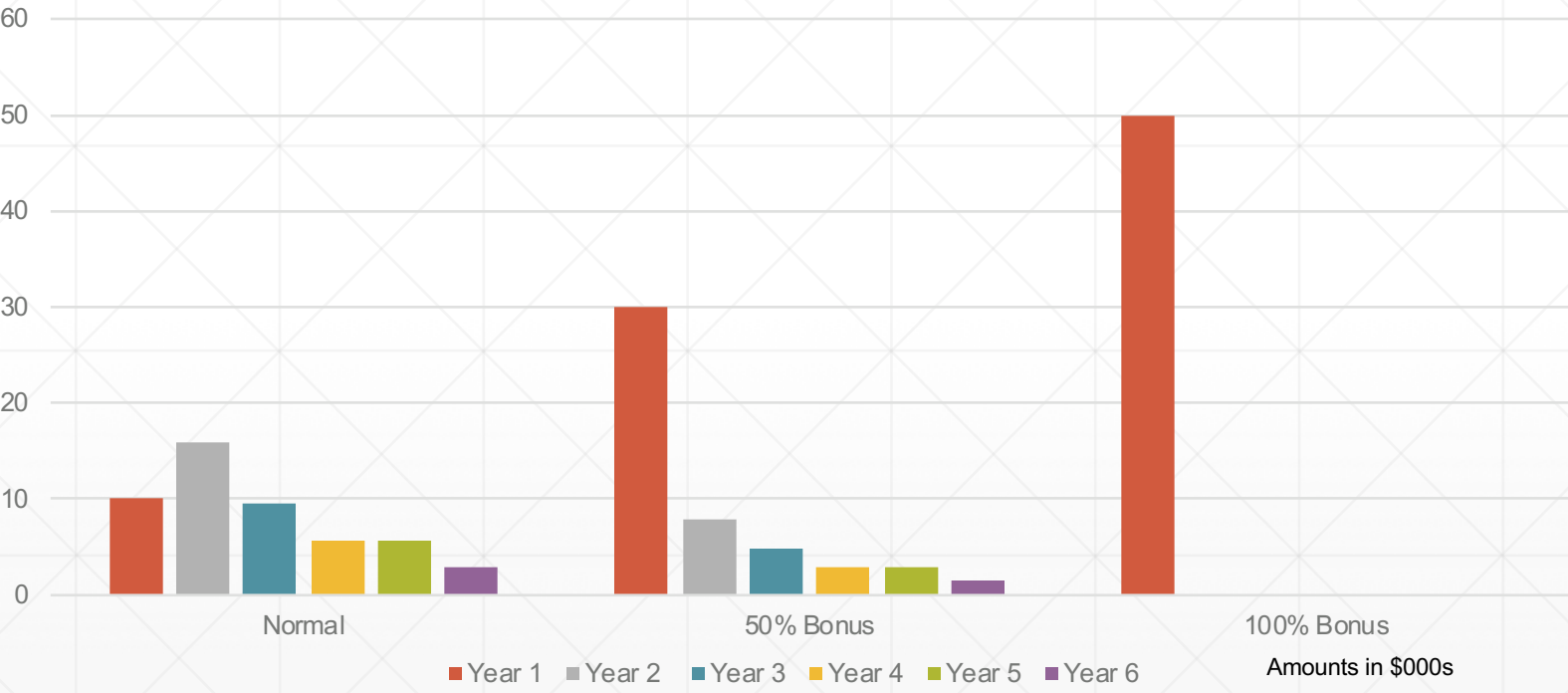
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## Bonus depreciation example on 5-year asset class with original cost of \$50,000

Year	Normal Depreciation Schedule	Normal Basis	Normal Depreciation Deduction	50% Bonus Depreciation Schedule	50% Bonus Depreciation Basis	50% Bonus Depreciation Deduction	Difference in Depreciation	Difference in State Tax Liability	100% Bonus Depreciation Schedule	100% Bonus Depreciation Basis	100% Bonus Depreciation Deduction	Difference in Depreciation	Difference in State Tax Liability
1	0.2	50,000	10,000	0.6	50,000	30,000	20,000	1,350	1	50,000	50,000	40,000	2,700
2	0.32	40,000	16,000	0.16	20,000	8,000	-8,000	-540	0	0	0	-16,000	-1,080
3	0.192	24,000	9,600	0.096	12,000	4,800	-4,800	-324	0	0	0	-9,600	-648
4	0.1152	14,400	5,760	0.0576	7,200	2,880	-2,880	-194	0	0	0	-5,760	-389
5	0.1152	8,640	5,760	0.0576	4,320	2,880	-2,880	-194	0	0	0	-5,760	-389
6	0.0576	2,880	2,880	0.0288	1,440	1,440	-1,440	-97	0	0	0	-2,880	-194
Totals	1		50,000	1		50,000	0	0	1	50,000	50,000	0	0

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# Bonus Depreciation Deduction Amounts



Amounts in \$000s

# Decile Analysis of Bonus Depreciation

Decile	Average Income	Total Income	Minimum Income	Maximum Income	Average Bonus Depreciation	Total Bonus Depreciation	Minimum Bonus Depreciation	Maximum Bonus Depreciation
1	(383,843)	(490,551,242)	(24,187,174)	(40,381)	175,723	224,573,604	0	44,089,630
2	(19,054)	(24,370,312)	(40,378)	(6,730)	20,006	25,588,149	0	943,617
3	(2,152)	(2,750,157)	(6,725)	0	10,713	13,691,683	0	870,256
4	0	0	0	0	6,716	8,582,544	0	7,174,832
5	796	1,017,264	0	2,621	10,670	13,636,832	0	3,662,171
6	7,218	9,224,642	2,623	12,864	9,364	11,966,905	0	576,683
7	21,611	27,619,237	12,929	31,908	14,927	19,077,239	0	855,220
8	47,513	60,722,244	31,991	67,726	22,699	29,008,884	0	1,331,432
9	108,364	138,488,781	67,744	177,159	45,411	58,034,716	0	12,699,414
10	1,171,982	1,496,621,641	177,359	107,805,976	287,233	366,796,889	0	38,433,385

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## Section 179 Expensing, recent years

Year	Max Expensing Allowance	Investment Limitation
2001-2002	\$24,000	\$200,000
2003	\$100,000	\$400,000
2004	\$102,000	\$410,000
2005	\$105,000	\$420,000
2006	\$108,000	\$430,000
2007	\$125,000	\$500,000
2008-2009	\$250,000	\$800,000
2010-2017	\$500,000	\$2,000,000
2018 +	\$1,000,000	\$2,500,000

Source: CRS 2018

## Existing Literature - Mixed Results

### Effectiveness of increased expensing

- Significant effects on capital purchases from increased expensing (Chirinko, Fazzari and Meyer 1999; Hulse and Livingstone 2010)
- Little effect on economic activity (Guenther 2014)

### Take up rates by taxpayer type (Kitchen and Knittel 2011, 2016)

- 50-70% for C and S corps
  - 30-40% for individuals
  - 40-60% for partnerships
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# Bonus Depreciation

	State Tax Liability Reduction from Depreciation with 50% Bonus on Eligible Property	State Tax Liability Reduction from Regular Depreciation on Eligible Property	Difference
1st Year	37,604,570	12,534,857	25,069,714
2nd Year	10,027,885	20,055,771	-10,027,885
3rd Year	6,016,731	12,033,463	-6,016,731
4th Year	3,610,039	7,220,078	-3,610,039
5th Year	3,610,039	7,220,078	-3,610,039
6th Year	1,805,019	3,610,039	-1,805,019
Total	62,674,284	62,674,284	0

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State Tax Liability Reduction from Depreciation with 100% Bonus on Eligible Property	State Tax Liability Reduction from Regular Depreciation on Eligible Property	Difference
62,674,284	12,534,857	50,139,427
0	20,055,771	-20,055,771
0	12,033,463	-12,033,463
0	7,220,078	-7,220,078
0	7,220,078	-7,220,078
0	3,610,039	-3,610,039
62,674,284	62,674,284	0

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## Section 179 Expensing

Mean	Std Dev	Minimum	Maximum	Sum	Estimated Tax
12,186	57,854	0	500,000	299,569,086	20,670,267

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## How much is Montana investment?

- 67 percent of apportioned bonus depreciation
  - Approximately \$16 million
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**Questions?**

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