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Vineyards and Section 179 Deduction

Vineyards and orchards may now be able to expense more of their property in the first year of operation. Due to a recent court ruling, vineyards can be recognized as Code Section 179 property, when plants begin to produce fruit.

Usually, a company will write off the cost of equipment or other fixed assets through depreciation. For example, if your company spends \$50,000 on a machine and the machine has a useful life of 5 years, then you would be able to depreciate \$10,000 per year for 5 years. This is indeed helpful in reducing a business owner's tax burden, but what about businesses that are starting up or in need of many pieces of equipment in a short period of time?

Several years ago, the IRS created Section 179 of the tax code to allow businesses to deduct the full purchase price of certain qualifying equipment or software purchased or financed during a tax year. This means that if you buy or lease certain items, the full purchase price can be deducted from your gross income. This incentive was created specifically to encourage small- and medium- sized businesses to buy equipment and invest in themselves.

There are, however, caps to the total amount that can be written off. For 2012, the total amount that can be written off is \$139,000, with a total investment ceiling of \$560,000.

In determining if something is Section 179 property, it must meet three criteria. (1) The property must be acquired by purchase for use in a trade or business. (2) It must be tangible property or certain computer software. (3) It must be considered Code Section 1245 property. From the IRS tax code, Section 1245 property is personal property, except for land and improvements to, such as buildings or other permanent structures.

Prior to a recent court case, vineyards were not allowed to be taken as Section 179 property and expensed fully in the first year of operation.

The court case that changed this ruling was based on the income tax returns of a taxpayer who operates a vineyard. In 2005, the taxpayer began planting a vineyard. The costs of land preparation, labor, and rootstock, were depreciated over the course of three years. When the plants started to produce fruit in 2009, the taxpayer placed the vineyard in service and expensed the full costs incurred in planting the vineyard. Based on court ruling, the vineyard is considered



Section 179 property, whether or not the vines are an inherently permanent structure.

If you have recently added plants to your vineyard that are producing fruit this year, please consider talking with us about the benefit of expensing the costs associated with the planting of the vines. It will reduce your gross income and accordingly, your taxes due in March 2013.

Davis & Hodgdon Associates offers entrepreneurial advisory services geared specifically to small business owners. The firm's proactive approach to finances is one with a focus on planning and budgeting. For more information call 802-878-1963.

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