

Part III - Administrative, Procedural, and Miscellaneous

Bonus Depreciation Extension in Areas Affected by Hurricanes Katrina, Rita, and Wilma

Announcement 2006-29

I. PURPOSE

This announcement advises taxpayers affected by Hurricane Katrina, Rita, or Wilma that the Treasury Department and the Internal Revenue Service have extended thru December 31, 2006, the required placed-in-service date for certain property that is eligible for the additional first year depreciation deduction provided in § 168(k) of the Internal Revenue Code and that is placed in service or manufactured in certain areas affected by Hurricane Katrina, Rita, or Wilma.

II. ADDITIONAL FIRST YEAR DEPRECIATION

Section 167 allows as a depreciation deduction a reasonable allowance for the exhaustion, wear and tear, and obsolescence of property used in a trade or business or held for the production of income. The depreciation allowable for tangible, depreciable property placed in service after 1986 generally is determined under § 168.

Section 168(k) allows an additional first year depreciation deduction for qualified property (as defined in § 168(k)(2)) and for 50-percent bonus depreciation property (as defined in § 168(k)(4)(B)). To be eligible for the additional first year depreciation deduction, § 168(k)(2)(A)(iv) (for qualified property) and § 168(k)(4)(B)(iii) (for 50-

percent bonus depreciation property) provide that the property must be placed in service by the taxpayer before January 1, 2005, or, for property described in § 168(k)(2)(B) or § 168(k)(2)(C), before January 1, 2006.

In general, § 168(k)(2)(B) applies to certain property having longer production periods and § 168(k)(2)(C) applies to certain aircraft that is not transportation property (as defined in § 168(k)(2)(B)(iii)) other than for agricultural or firefighting purposes. These types of property are eligible for the extended placed-in-service date of December 31, 2005, provided the property, among other things, is acquired by the taxpayer pursuant to a written binding contract that was entered into before January 1, 2005.

Section 105 of the Gulf Opportunity Zone Act of 2005, Pub. L. 109-135, 119 Stat. 2577 (December 21, 2005) (GO Zone Act), provides that, for property described in § 168(k)(2)(B) or § 168(k)(2)(C) that is either placed in service or manufactured in the GO Zone (as defined in § 1400M(1)), the Rita GO Zone (as defined in §1400M(3)), or the Wilma GO Zone (as defined in §1400M(5)) by a taxpayer or person affected by Hurricane Katrina, Rita, or Wilma, the Secretary may, on a taxpayer by taxpayer basis, extend the required placed in service date under § 168(k) as necessary for a period not to exceed one year. See pages 2 and 3 of the IRS Publication 4492, Information for Taxpayers Affected by Hurricanes Katrina, Rita, and Wilma, for the counties and parishes that comprise the GO Zone (Core Disaster Area), the Rita GO Zone, and the Wilma GO Zone.

Section 7508A provides the Secretary with authority to postpone the time for performing certain acts under the internal revenue laws for taxpayers affected by a

Presidentially declared disaster as defined in section 1033(h)(3).

III. APPLICATION OF § 105 OF GO ZONE ACT

After considering the effect of Hurricanes Katrina, Rita, and Wilma on the ability of taxpayers to manufacture, or place in service, property described in § 168(k)(2)(B) or § 168(k)(2)(C) in the GO Zone, the Rita GO Zone, or the Wilma GO Zone before January 1, 2006, Treasury and the Service have determined that it is necessary to extend the required placed-in-service date in § 168(k)(2)(A)(iv) and § 168(k)(4)(B)(iii) to before January 1, 2007, for property that is described in § 168(k)(2)(B) or § 168(k)(2)(C) and that is either placed in service by the taxpayer or manufactured by a person in the GO Zone, the Rita GO Zone, or the Wilma GO Zone, provided the taxpayer was unable to meet the December 31, 2005, placed-in-service date deadline for such property as a result of Hurricane Katrina, Rita, or Wilma.

If a taxpayer applies this announcement to property described in the preceding paragraph, the taxpayer must write "Extension under Announcement 2006-29" across the top of its Form 4562, Depreciation and Amortization, for the placed-in-service year of the property. The taxpayer is not required to attach to the return information supporting the determination that the property satisfies the requirements described in the preceding paragraph. However, § 1.6001-1(a) of the Income Tax Regulations requires that taxpayers maintain such books and records as are sufficient to establish the entitlement to, and amount of, any deduction claimed by the taxpayer. Accordingly, a taxpayer claiming the additional first year depreciation deduction for property described in this announcement should retain information supporting that deduction as part of the taxpayer's records for purposes of § 1.6001-1(a).

IV. DRAFTING INFORMATION

The principal author of this announcement is Patrick S. Kirwan of the Office of Associate Chief Counsel (Passthroughs & Special Industries). For further information regarding this announcement contact Patrick S. Kirwan at (202) 622-3110 (not a toll-free call).