

What is the Section 179 Deduction?

Section 179 of the IRS tax code allows businesses to deduct the full purchase price of qualifying equipment and/or software purchased or financed during the tax year. That means that if you buy (or lease) a piece of qualifying equipment, you can deduct the FULL PURCHASE PRICE from your gross income. It's an incentive created by the U.S. government to encourage businesses to buy equipment and invest in themselves. Section 179 is one of the few incentives included in any of the recent Stimulus Bills that actually helps small businesses. Although large businesses also benefit from Section 179 or Bonus Depreciation, the original target of this legislation was much needed tax relief for small businesses - and millions of small businesses are actually taking action and getting real benefits.

Essentially, Section 179 works like this:

When your business buys certain items of equipment, it typically gets to write them off a little at a time through depreciation. In other words, if your company spends \$50,000 on a machine, it gets to write off (say) \$10,000 a year for five years (these numbers are only meant to give you an example). Now, while it's true that this is better than no write-off at all, most business owners would really prefer to write off the entire equipment purchase price for the year they buy it. In fact, if a business could write off the entire amount, they might add more equipment this year instead of waiting over the next few years. That's the whole purpose behind Section 179 - to motivate the American economy (and your business) to move in a positive direction. For most small businesses, the entire cost can be written-off on the 2018 tax return (up to \$1,000,000).

Limits of Section 179

Section 179 does come with limits - there are caps to the total amount written off (\$1,000,000 for 2018), and limits to the total amount of the equipment purchased (\$2,500,000 in 2018). The deduction begins to phase out dollar-for-dollar after \$2,500,000 is spent by a given business, so this makes it a true small and medium-sized business deduction.

Initial Equipment Cost	\$8,000.00
1st year write-offs	
- Section 179 deduction	\$8,000.00
- Bonus depreciation (100% after Section 179 deduction)	+ \$0.00
- Annual Standard Depreciation of 20% for Years 1-5	<u>+ \$0.00</u>
Total deduction in 1st year	\$8,000.00
Tax savings (35% tax bracket assumed)	<u>- \$2,800.00</u>
Bottom line equipment cost after tax savings	\$5,200.00

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