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Update & Primer on Section 179 Depreciation

Section 179 of the IRS Code was enacted back in 1981 as part of the Economic Recovery Tax Act as a tool to help small to medium sized businesses make investments in capital assets. It allows for **significantly accelerated write-offs of the asset**, **oftentimes a complete write-off in the year it is put in service**, versus standard depreciation that would require a gradual recognition of the costs over several years.

This is really powerful stuff. Here is a quick example why.

Say a business purchases a $750,000 piece of equipment. Or they buy multiple pieces of equipment with a cost of $750,000. Assuming a useful life of 10 years, that business would recognize around $75,000 in first year depreciation using standard, straight-line depreciation.

That $75,000 deduction shields a like amount of earnings from taxes. Assuming a 35% tax bracket, **the standard $75,000 deduction here produces $24,750 in annual tax savings.**

With Section 179, that business could deduct 100% of the cost up to $500,000, and 50% of the costs between $500,000 and $750,000. So in this case, that same $750,000 equipment purchase has first year **Section 179 Depreciation of $625,000!**

This business could shield up to $625,000 of earnings from taxes in the first year, resulting in **Section 179 providing $200,000 in tax savings in the year of the equipment purchase(s)**, assuming the business has the profitability to take advantage of the large depreciation. Investments in new capital assets are usually made by those businesses that are also growing and profitable.

This all works with smaller numbers and smaller businesses. Investing $50,000 in a long-term asset can provide tax savings of $10,000 more using Section 179 depreciation than what you can shield using standard depreciation.

Business owners in the past have used the Section 179 allowance to purchase themselves a car through the company, but Congress curbed a lot of that by requiring all business vehicles to weigh more than 6,000 pounds to qualify. Only the biggest SUV's need apply.

Congress has often waited until the eleventh hour to provide direction on what the deduction limits are under Section 179, but not this year. For the first time in recent years the program appears stable and unlikely to be adjusted again. The expectation is that the $500,000 limit for a 100% deduction, recently increased from $250,000, will remain permanent for the foreseeable future.

Below are things to keep in mind as you consider any capital purchases before the end of the current tax year.

- Qualifying property under Section 179 includes:

  Office Equipment
  Office Furniture & Fixtures
  Computers & Software
  Machinery
  Large Business Equipment
  Manufacturing Tools
  Business Vehicles over 6,000 pounds
  Single-Purpose Structures

- Businesses may deduct 100% up to $500,000 of Qualifying Equipment that is put into service before year-end. Even if that means December 30th before use begins, it qualifies.

- Qualifying purchases made above the $500,000 threshold qualify for 50% Bonus Depreciation, versus the 100% Depreciation on the first $500,000.

- Businesses may spend up to $2,000,000 in capital purchases in a fiscal year and qualify for all $500,000 of Section 179 Depreciation, plus 50% Bonus Depreciation on the amount between $500,000 and $2,000,000. With qualifying purchases of $2,000,000, a business could deduct as much as $1,250,000 in the first year under Section 179.

- Businesses spending between $2,000,000 and $2,500,000 on capital purchases lose the Section 179 benefit dollar-for-dollar up to $2,500,000, at which point the deduction is phased out completely.

- The Section 179 deduction may be used by sole proprietors, partnerships, and corporations.