

Quick Facts about Section 179 and the Depreciation Bonus

When the Stimulus Act was created in 2008, **Section 179** was geared to encourage small business to invest in equipment needed to grow. Over the last few years, Congress raised this deduction to \$500,000, but on January 1, 2015, this deduction was reduced to \$25,000.

The **Depreciation Bonus** allowed a company to deduct 50% of new equipment cost after using the Section 179 deduction. However the Depreciation Bonus expired on December 31, 2014.

On December 22, 2015, Congress extended and enhanced these incentives thereby encouraging companies of all sizes to grow by purchasing, leasing or financing new efficient plant equipment. *Both tax incentives are retroactive to January 1, 2015.*

Section 179:

- 2015 Deduction Limit: \$500,000
- 2015 spending cap on cumulative equipment purchases: \$2,000,000
 - Over \$2,000,000, this incentive will be reduced dollar for dollar
- Equipment must be installed by calendar year-end
- Qualifying Equipment (Partial List)
 - New or used equipment
 - Property attached to your building that is not a structural component of the building (i.e., a printing press, etc)
 - Software
 - Computers
 - Business vehicles weighing in excess of 6,000 pounds
 - Office Furniture
 - Office Equipment

List of Section 179 Non Qualifying Property (Partial List)

- Real Property defined as land, buildings, permanent structures and the components of the permanent structures (including improvements such as paved parking areas, fences etc.)
- Air conditioning and heating equipment
- Property used outside the United States
- Property that is used to furnish lodging.
- Property acquired by gift or inheritance, as well as property purchased from related parties Deduction (*No, you can't sell equipment to yourself and qualify for Section 179*).

Depreciation Bonus:

Bonus Depreciation enables a company to deduct a substantial amount of a **new** asset and will be in effect through the end of 2019 with a gradual phase-out as follows:

- 50% in 2015 through 2017
- 40% in 2018
- 30% in 2019

Property qualifies for bonus depreciation only if:

- It is **new** (*if the newly purchased property contains used parts, it is still treated as new if the cost of the used parts is less than 20% of the total cost of the property*)
- It has a useful life of 20 years or less (this includes all types of tangible personal business property and software you buy, but not real property, and
- You purchase it from someone who is unrelated to you (it can't be a gift or inheritance).

Bonus depreciation is optional—you don't have to take it if you don't want to. But if you want to get the largest depreciation deduction you can, you will want to take advantage of this option whenever possible.

Electing the Section 179 Deduction | Form 4562

- ✓ Whether you lease, finance or purchase the equipment, it must be placed in service by the calendar year-end.
- ✓ You must *elect* to take the deduction when you file your tax return for the year. *This is not an automatic tax deduction.*
- ✓ Section 179 is taken on an item by item basis, and you do not have to use it on assets purchased during the year if you do not wish to do so
- ✓ Links to IRS Form 4562:
 - [Download IRS form 4562](#) for tax year 2015.
 - [Download instructions for IRS form 4562](#) for tax year 2015.

Extensions and Amended Returns:

*Initially you were **not** allowed to claim Section 179 for previous tax years - however, under Rev. Proc. 2008-54 you are now able to amend and elect Section 179 if you previously did not for tax years beginning after 2007 through the current year.* You may claim Section 179 deductions up to the due date (including extensions) for filing your taxes for the tax year you are claiming the deduction.

REMINDERS:

- Consult with your CPA
- The tax incentives are retroactive to January 1, 2015
- Keep complete records of the business equipment you leased or purchased during the year, including where you acquired the equipment from and the date the equipment was acquired and placed into service.
- If filing for any particular year, the equipment must have placed into service between January 1 and December 31 of the year you are filing for.

Before your next equipment purchase.....call me and together we can create a program that fits your budget and explore how these tax savings can help pay for the new equipment

