

F I N A N C E

What Is Section 179?

Section 179 of the U.S. internal revenue code is an immediate expense deduction that business owners can take for purchases of depreciable business equipment instead of capitalizing and depreciating the asset over a period of time. The Section 179 deduction can be taken if the piece of equipment is purchased or financed, and the full amount of the purchase price is eligible for the deduction.

KEY TAKEAWAYS

Section 179 of the IRC allows businesses to take an immediate deduction for business expenses related to depreciable assets such as equipment, vehicles, and software.

This allows businesses to lower their current-year tax liability rather than capitalizing an asset and depreciating it over time in future tax years.

Section 179 is limited to a maximum deduction of \$1,050,000 and a value of property purchased to \$2,620,000 for the year 2022.

Section 179 Explained

Taking the cost of the equipment as an immediate expense deduction allows the business to get an immediate break on their tax burden whereas capitalizing then depreciating the asset allows for smaller deductions to be taken over a longer period of time. The Section 179 expensing method is offered as an incentive for small business owners to grow their businesses with the purchase of new equipment.

Section 179 expense deduction is limited to such items as cars, office equipment, business machinery, and computers. This speedy deduction can provide substantial tax relief for business owners who are purchasing startup equipment. The equipment must qualify for the deduction per the specifications within Section 179 of the tax code and the purchase price must be within the dollar amount ranges allowable by the code. The property must be placed in service during the tax year for which the deduction is being claimed. Equipment covered by the Section 179 deduction might also qualify for bonus depreciation, which further reduces the business owner's tax bill.

Section 179 Details

The maximum amount you can elect to deduct for most section 179 property you placed in service in tax years beginning in 2022 is \$1,050,000, according to the Internal Revenue Service (IRS), which also limits to the total amount of the equipment purchased to a maximum of \$2,620,000 in order to qualify. Equipment, vehicles, and/or software purchased under Section 179 must be used for business purposes more than 50% of the time to qualify for the deduction. Simply multiply the cost of the equipment, vehicle(s), and/or software by the percentage of business use to arrive at the monetary amount eligible for Section 179.

Example

Imagine that a company has purchased a new piece of machinery used 100% for business purposes at a cost of \$50,000 and zero salvage value. The company could take that asset and depreciate over the course of 5 years as \$10,000 each year. Section 179 would instead allow the company to write off the entire \$50,000 in the current year.

Contact

Joe Lamping

800.995.6604 ext. 7432 / joe.lamping@gardnerdenverfinance.com