Section 179

A Powerful Incentive for Your Business

2022 Section 179 Update

LEAF Commercial Capital, Inc., a subsidiary of M&T Bank.

Purpose

This whitepaper includes:

- An overview of Section 179 of the IRS Tax Code and its key provisions
- To help business owners like you decide if taking advantage of the Section 179 deduction would benefit their businesses

First Things First: What is Section 179?

The Section 179 income tax deduction was created by the IRS to stimulate the nation's economy by making it more financially attractive for business owners to invest in equipment and technology. By allowing them to deduct up to $1,080,000 of equipment costs for the year the equipment is placed into service, instead of depreciating the cost over several years, Section 179 gives businesses a powerful tool to manage their taxes while also cutting the effective cost of their solutions.

But Isn't Section 179 Complicated?

Business owners might expect Section 179 to come with a lot of documentation requirements, forms, rules, exceptions, and other complications. But while there are a few rules associated with Section 179 concerning which equipment classes qualify for the deduction, claming the benefit is a straightforward process. Remember, Section 179 allows businesses to deduct the total cost of qualified equipment types from taxable income as an expense in the year the equipment is acquired and placed into service. To take the deduction, all that's required is a completed IRS Form 4562 submitted with the corresponding tax return.

Section 179 vs. Standard Depreciation

If you're thinking about acquiring equipment but aren't sure if taking the Section 179 deduction is right for your business, consider the alternative. If a business doesn't take advantage of Section 179, it must then capitalize the equipment and depreciate it over time. By using standard depreciation, business can deduct from taxable income only the amount of depreciation claimed for that year.

That can have a considerable affect on the effective cost of your equipment. Take a look at the example below comparing Section 179 to standard depreciation.

Section 179 Deduction

Equipment Cost	$750,000
Section 179 Deduction	$750,000
Tax Savings (@ 21% Rate)	$157,500
Net Cost After Savings	$592,500

VS.

Standard Depreciation Deduction

Equipment Cost	$750,000
Depreciation Deduction	$150,000
Tax Savings (@ 21% Rate)	$31,500
Net Cost After Savings	$718,500

A Brief History of Section 179

Section 179 has been a fixture of the federal tax code since it was introduced as the Small Business Tax Revision Action of 1958. In an effort to:

- Reduce the tax burden on small business owners
- Stimulate small business investment
- Simplify accounting for smaller firms

The original allowable deduction was $2,000 ($4,000 for married couples filing joint returns) for the cost of new and used equipment acquired and placed into service in the same tax year.

While the purpose hasn't changed in the years since 1958, Section 179 has increased the allowable deduction and phaseout threshold to adapt to the nation's economic conidtions.

Notable Revisions, Including Bonus Depreciation Phaseout

- The Economic Stimulus Act of 2008 increased the Section 179 allowance to $250,000 and the phaseout threshold to $800,000.
- Small Business Jobs Act of 2010 increased the Section 179 allowance to $500,000 and the phaseout threshold to $2,000,000 for 2010 and 2011.
- The American Taxpayer Relief Act of 2012 allowed for the inclusion of off-the-shelf software as an eligible expense under Section 179.
- The Tax Cuts and Jobs Act of 2017 further increased allowances, raising the 2022 deduction limit to $1,080,000 and the threshold to $2,700,000.
- Enhanced bonus depreciation, which can be used after the Section 179 limit is reached, is 100% this year.

- However, it begins to phase out by decreasing to 80% in 2023, 60% in 2024, and 40% in 2025. To take full advantage of enhanced bonus depreciation, businesses will need to acquire qualifying equipment and put it into service by December 31, 2022.

What Qualifies for Section 179 Deductions

To stay true to its purpose of stimulating business investment, and economic growth, the IRS allows nearly all equipment types to qualify for the Section 179 deduction. This includes tangible and intangible assets, whether purchased outright, financed or leased, providing they fall below the phaseout threshold amount and are placed into service (or ready to be put into service) in the year they are acquired.

And Section 179 isn't just for new equipment. Used equipment can qualify, too, as long as it's a new asset for the acquiring company. However, refinanced equipment already in use by the company doesn't qualify.

Since Section 179 is intended to stimulate business investment in equipment, unprofitable businesses with no taxable income can still take advantage of Section 179 deductions. That's good news for start-ups or business experiencing a hiccup in their profitability. These businesses will need to carry the deduction forward to a year in which they realize a profit.

Below is a general list of equipment that can qualify for the Section 179 deduction.

- Office equipment
- Office furniture
- Computers and computer-related equipment
- Off-the-shelf computer software
- Machinery and equipment
- Business vehicles
- Property attached to a building, but not classified as a structural component (i.e., printing presses, large manufacturing equipment)
- Certain improvements to non-residential buildings (i.e., roofing, HVAC, security systems, fire–suppression systems)

Note that for tangible assets designated as "partial business use" equipment, only the percentage of use related to the business is deductible under Section 179.

Certain Restrictions Apply

While the benefits of Section 179 can be substantial, business owners need to be aware of certain restrictions. The most important of these is understanding that the phaseout threshold begins to cancel out the Section 179 benefit once the value of acquired equipment and technology exceeds $2,700,000.

Another caveat is that only off-the-shelf computer software programs qualify under Section 179. Custom–deceloped software doesn't qualify.

Since many vehicles can be used for both business and personal purposes, Section 179 rules for allowable vehicle deductions frequently change and are slightly more complicated. Seek professional tax advice when considering applying the Section 179 deduction to the acquisition of a vehicle.

Section 179 and Leasing – A Winning Combination

Companies that pair Section 179 with the right leasing solution can profit in many ways. Beyond the immediate benefit of upgrading equipment, a business can increase its productivity and profitability with minimum cash outlay. And leasing eliminates the necessity of drawing from cash reserves, existing lines of credit, or other resources.

In the end, a company can increase its productivity, conserve cash, and preserve credit lines, while at the same time reaping the full benefits of Section 179. This makes a winning combination for virtually any business looking to acquire equipment.

As with all matters related to the federal tax code, business owners are strongly advised to consult with their CPAs and other tax professionals before making any final decisions concerning Section 179.