Section 179

A Powerful Incentive for Your Business

2021 Section 179 Update

LEAF Commercial Capital, Inc. is a subsidiary of People's United Bank, N.A.

Purpose

This whitepaper provides business owners with the following:

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

The Section 179 deduction was put in place stimulate the nation's economy by motivating business owners to invest in their businesses through the purchase of equipment. The logic is simple: if a business can deduct the entire cost of its equipment in the year such equipment is placed into service instead of depreciating that cost over several years through incremental depreciation charges, that business is incented to acquire more equipment.

So, who benefits? Everyone ... especially business owners. The greater the level of business investment in equipment, the greater the benefit to the overall economy. But for a business owner taking the Section 179 deduction, you have a tax-savings way to acquire the business equipment, machinery and technology you need to increase your company's productivity and profitability.

Section 179 Is Not Complicated

Sure, there are a few rules associated with Section 179 concerning which equipment classes qualify for the deduction and which don't. But claming the benefit is a straightforward process. Remember, Section 179 allows business 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, the IRS requires a completed IRS Form 4562 to be submitted with the corresponding tax return.

Section 179 vs. Standard Depreciation

If you're thinking about acquiring new 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. The depreciation route allows the business to deduct only the amount of the depreciation claimed for that year from taxable income.

Take a look at the example below comparing the application of the Section 179 benefit as opposed 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**

Section 179 - A Brief History

The Section 179 expensing allowance has been a fixture of the federal tax code since 1958 when it was introduced as the Small Business Tax Revision Action of 1958. Its purpose was threefold:

- To reduce the tax burden on small business owners;
- To stimulate small business investment, and
- To simplify accounting for smaller firms.

The original allowable deduction was $2,000, or $4,000 in the case of a married couple filing a joint return, for the cost of new and used equipment acquired and placed into service in the same tax year.

While the purpose is not different today, Section 179 has evolved to adapt to the nation's economic conditions with the allowable deduction and phaseout threshold increasing to keep in step with the changing times.

Recent and Notable Revisions Include:

- Economic Stimulus Act of 2008 aimed at stimulating business investment at the onset of the so-called Great Recession. The Act increased the Section 179 allowance to $250,000 and the phaseout threshold to $800,000.
- Small Business Jobs Act of 2010, which increased the Section 179 allowance to $500,000 and the phaseout threshold to $2,000,000 for 2010 and 2011.
- American Taxpayer Relief Act of 2012 allowed for the inclusion of off-the-shelf software as an eligible expense under Section 179.
- Protecting Americans from Tax Hikes Act of 2015 permanently set the Section 179 expense allowance at $500,000 and the phaseout threshold at $2,000,000.

- Tax Cuts and Jobs Act of 2017 doubled the maximum expense allowance to $1,000,000 and increased the phaseout threshold to $2,550,000. *

The deduction and phaseout threshold have been indexed for inflation since 2016. For 2021, the deduction limit is now $1,050,000, and the threshold is $2,620,000.

What Qualifies Under Section 179

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. That means tangible or intangible assets, whether purchased outright, financed or leased, must fall below the phaseout threshold amount and those assets must be placed into service (or ready to be put into service) in the year they are acquired.

In the case of Section 179, new equipment includes used equipment as long as the equipment is a new asset for the acquiring company. But refinanced equipment already in use by the company doesn't qualify under the provisions.

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 the business realizes a profit.

Below is a general list of equipment for business use qualifying 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 applying the provisions of Section 179 can be substantial to virtually any business, business owners need to be aware of certain restrictions. The most important of these is understanding the phaseout threshold cancels out the Section 179 benefit once the equipment acquisition levels exceed $2,620,000.

Also, only off-the-shelf computer software programs qualify under Section 179. Customized software specifically developed for a company doesn't qualify.

Since many vehicle types can be used for both business and personal purposes, the Section 179 rules for allowable 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 the Section 179 expense allowance with a 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 impact its productivity, conserve cash or preserve credit lines, and at the same time, reap the full benefits of Section 179. This makes for a winning combination for virtually any business looking to acquire equipment.

Note to business owners: 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.

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