

2022

Section 179

How to Guide



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

Table of Contents

04 Introduction

06 Section 1 About Section 179

- ★ What is Section 179?
- ★ What can I deduct under Section 179?
- ★ Is my eligible Section 179 amount deducted from taxes or from income?
- ★ What form will I need to claim my Section 179 deduction?
- ★ Is there a limit on how much I can deduct?
- ★ Are Section 179 limits fixed or do they change each year?
- ★ What is bonus depreciation and how does it work with Section 179?

10 Section 2 What Qualifies for Section 179

- ★ Can I claim leased or financed equipment and software?
- ★ Can used equipment qualify for Section 179?
- ★ Does software qualify for Section 179?

- ★ The server solution I'm acquiring includes hardware, software, installation, and configuration charges. Can I claim all of that under Section 179?
- ★ I inherited equipment. Can I deduct the value under Section 179?

12 Section 3 Common Questions on Section 179

- ★ Can I acquire as much equipment as I want during a given year and still qualify for Section 179?
- ★ Can I claim some of my equipment acquired during the year, but not all?
- ★ Can I claim a Section 179 deduction in excess of my net business income for the year?
- ★ I purchased equipment before 12/31, but it won't be installed until next year. Can I claim a Section 179 deduction for this year?
- ★ Can I claim equipment acquired partially for business and partially for personal use?
- ★ My brother sells business equipment. Can I buy from him and claim a Section 179 deduction?
- ★ Can I convert personal use equipment into business use equipment and then claim a Section 179 deduction?

16 Conclusion

The LEAF Lunch Break Guide to Section 179

Got questions on IRS Section 179? You're not alone – it can be confusing, and businesspeople ask us about it all the time. And we're always glad to answer their questions, especially since there are some really valuable benefits they might miss out on just because of a little uncertainty about how Section 179 works.

We don't want you to miss out on these benefits, either, so we created this quick guide with answers to some of the most common questions we get about Section 179. We kept it short so you can take a look over your lunch break or any time you have a few moments.

We hope this guide helps you understand the basics. As always, please check with your tax professional for the latest and most complete information on Section 179. We'll be happy to help too – get in touch anytime for flexible leasing and financing that make it easy and affordable to acquire equipment under Section 179.

Enjoy the guide!

Section 1

About Section 179

What is Section 179?

IRS Section 179 was created to encourage the acquisition of equipment, software, and other business-use assets by allowing businesses to deduct the entire cost in a single year, rather than depreciating the cost of assets over multiple years. In effect, the Section 179 deduction allows treating business equipment and software acquisitions as expenses in the year they're put into service. This not only offers financial advantages, it also simplifies taxes and recordkeeping.

What can I deduct under Section 179?

Machinery, office equipment, and off-the-shelf software for business use qualifies, as does office furniture. You can also deduct the cost of business vehicles, as well as some improvements to your business property, such as heating and security systems. Check with your tax professional for the full list.

Is my eligible Section 179 amount deducted from taxes or from income?

Your Section 179 amount is deducted from income. This has the effect of reducing the cost of your equipment according to your tax bracket. To use a simple example, say you deduct \$100,000 in equipment acquisitions from your income. If your tax bracket is 21%, you'll keep \$21,000 you would have otherwise paid in taxes. The cost of your equipment is effectively \$79,000. And just in case you're wondering, you get the whole deduction when you file your taxes, even if you pay for your equipment over time. *(Example pg 8)*



Section 179 Deduction

Equipment Cost	\$100,000
Section 179 Deduction	\$100,000
Tax Savings (@ 21% Rate)	\$21,000

Net Cost After Savings **\$79,000**

What form will I need to claim my Section 179 deduction?

Section 179 deductions are claimed on IRS form 4562, available directly from [irs.gov](https://www.irs.gov) or from your tax preparer.

Is there a limit on how much I can deduct?

Yes, but it's a pretty generous limit. Previously \$500,000 per year, the limit has increased to \$1,080,000 for 2022.

Are Section 179 limits fixed or do they change each year?

Under current law, Section 179 limits adjust for inflation each year. For 2022, the limit is \$1,080,000.

What is bonus depreciation and how does it work with Section 179?

Bonus depreciation is a way to accelerate the equipment depreciation you'd normally spread over a period of years. Instead of depreciating a percentage of the asset each year, this benefit allows you to depreciate 100% of asset value remaining after Section 179 deductions.

For instance, let's say you acquire \$1,500,000 in equipment. The first \$1,080,000 can qualify for Section 179. But what about the remaining \$420,000? Bonus depreciation lets you claim 100% depreciation on it for 2022. But the benefit is set to decrease to 80% in 2023, 60% in 2024, and 40% beginning in 2025. To take full advantage of bonus depreciation, businesses need to acquire qualifying equipment and put it into service by December 31st, 2022.

Section 2

What Qualifies for Section 179

Can I claim leased or financed equipment and software?

Yes. Even though you'll be spreading out the cost of your solution, you can deduct, subject to established limits, the entire cost of the solution in the year you put it to work.

Can used equipment qualify for Section 179?

Yes, used equipment can qualify, as long it's new to you when you acquire it.

Does software qualify for Section 179?

Yes, you can claim a Section 179 deduction for software, whether you acquire it separately or as part of a hardware/software solution. Keep in mind though that it must be off-the-shelf software. Custom-developed software doesn't qualify for Section 179.

The server solution I'm acquiring includes hardware, software, installation, and configuration charges. Can I claim all of that under Section 179?

Generally, yes you can. Check with your tax professional to be sure, though.

I inherited equipment. Can I deduct the value under Section 179?

No. Inherited equipment or equipment received as a gift does not qualify for Section 179.

Section 3

Common Questions on Section 179

Can I acquire as much equipment as I want during a given year and still qualify for Section 179?

Acquiring business equipment, software, and other assets is subject to a \$2.7 million yearly limit for purposes of Section 179. Beyond that limit, there's a dollar-for-dollar phase-out in your Section 179 benefit.

Can I claim some of my equipment acquired during the year, but not all?

Yes, but it's a use-it-or-lose-it proposition. You can claim a Section 179 deduction only in the first year equipment is put into service.

Can I claim a Section 179 deduction in excess of my net business income for the year?

No, but you may be able to claim some of the excess deduction in a subsequent tax year.

I purchased equipment before December 31st, but it won't be installed until next year. Can I claim a Section 179 deduction for this year?

No, you'll have to claim it when you file next year's taxes. To qualify, equipment and software must be acquired and put into service during the tax year in which you claim it.

Can I claim equipment acquired partially for business and partially for personal use?

Probably, as long as your business use of the equipment exceeds 50%. Be aware however that the amount you can deduct is proportional to your business use. If you use a computer 75% of the time for business, your Section 179 deduction will be limited to 75% of the computer's cost. If you use equipment for business but less than 50% of the time, you won't qualify for Section 179 but still may be able to take advantage of regular depreciation for business use.

My brother sells business equipment. Can I buy from him and claim a Section 179 deduction?

No. Equipment must be acquired from a non-related party to qualify for Section 179.

Can I convert personal use equipment into business use equipment and then claim a Section 179 deduction?

No. To qualify for Section 179, equipment must be used over 50% for business in the first year it's acquired.

Thanks for Reading

We hope this quick guide to Section 179 has been helpful.
Questions? Comments? Contact us at 800.819.5556.



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