

EQUIPMENT FINANCE ARTICLE

AN INCENTIVE TO ACQUIRE COMMERCIAL EQUIPMENT

New law expands Section 179 tax deduction

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What if you could have more and/or better revenue-producing equipment in service this year for a lower net investment than you have needed in the past? Would that change how you look at your business strategies? Would it help you bid on new relationships? Grow your company?

In December 2015, Congress reinstated the benefits of the Section 179 Tax Deduction for businesses. Under the “Protecting Americans from Tax Hikes Act of 2015,” the Section 179 limit is expanded to \$500,000 with additional benefits of bonus depreciation for amounts over \$500,000. The new law will make this a permanent change and that is really big news!

A QUICK PRIMER ON SECTION 179

The Section 179 deduction can allow businesses of certain sizes (subject to specific limitations) to deduct up front, rather than depreciate over a number of years, the cost of equipment such as computers, vehicles, manufacturing equipment, farm machinery, office furniture, etc. Combined with the benefits of bonus depreciation and the incentive to acquire equipment and stay on the cutting edge of technology by continuing to buy equipment, this deduction can have a positive impact on your flexibility and growth.

EXAMPLE 1

Purchase Price:	\$50,000
Bonus Depreciation:	\$0.00
Normal First Year Deduction:	\$0.00
Total First Year Deduction:	\$50,000
Cash Savings on Purchase:	\$17,500
Lowered Cost of Equipment:	\$32,500

EXAMPLE 2

Purchase Price:	\$600,000
Section 179 Deduction:	\$500,000
Bonus Depreciation:	\$50,000
Normal First Year Deduction:	\$10,000
Total First Year Deduction:	\$560,000
Cash Savings on Purchase:	\$196,000
Lowered Cost of Equipment:	\$404,000

These assets need to be purchased and put into service by December 31 each year to qualify for the deduction in that tax year.

At the same time, businesses exceeding a total of \$2 million in purchases of qualifying equipment will have the Section 179 deduction phase out dollar-for-dollar and completely eliminated above \$2.5 million. Additionally, under this new law, the Section 179 cap will be indexed to inflation in \$10,000 increments in future years. Fifty percent Bonus Depreciation is also likely to be extended under this legislation through 2019, and will be phased down to 40% in 2018 and 30% in 2019.



THE IMPORTANT TAKEAWAYS

The impressive economics of the tax benefit might lead you to rethink your equipment life cycle strategies. Acquiring equipment for a lower net investment might allow you to consider replacing equipment more frequently, upgrading to more effective technologies, and reducing the operating expenses associated with running equipment longer. By working closely with your tax advisor and an experienced equipment financier, you might be able to put more or better revenue-producing equipment in service.



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