SECTION 179 EXPENSING AND BONUS DEPRECIATION

Two of the biggest tax incentives for businesses are Section 179 expensing and bonus depreciation. You may be eligible for both depending on your business's taxable income. These deductions can significantly lower your taxable income, saving you money that can be used to expand your business.

Section 179 allows you to immediately expense up to $1,040,000 (will increase for inflation in 2020) of Section 179 property placed in service in 2020. This amount is reduced dollar for dollar if your total Section 179 property exceeds $2,590,000. The Section 179 expense is limited to your business's taxable income; it cannot create a loss. This expensing option is available to individuals, S corporations, partnerships and C corporations.

Section 179 property generally consists of machinery and equipment, computers, business vehicles with a gross weight in excess of 6,000 pounds, certain improvements to an existing non-residential building (fires suppression, alarms, security systems, HVAC and roofing). Section 179 applies whether the property is new or used (as long as it is new to you), regardless of whether purchased for cash, leased or financed. The Section 179 expense for vehicles with a gross vehicle weight in excess of 6,000 pounds is $25,500. Certain vehicles may be eligible for the full 100% expensing.

As an example, assume your business had taxable income of $100,000 and had purchased $150,000 of Section 179 eligible property. Your deduction is limited to $100,000 bringing your taxable income to zero. The remaining $50,000 is carried forward to the next year and may be used, assuming you have at least $50,000 in taxable income. Alternatively, you can use conventional depreciation methods on the remaining $50,000 which would create a loss which may be used to offset other income or carried forward to the following year.

Bonus depreciation is an additional first year expense that applies to new or used qualified property purchased for your business. Qualified property is defined as depreciable business assets with a life of 20 years or less and would include machinery, equipment, computers, appliances and furniture. Bonus depreciation has no limits, you can expense 100% of your eligible business purchases in the year of purchase. And, unlike Section 179, bonus depreciation can create a taxable loss which a business can elect to carry forward.

If you elect 100% bonus depreciation, all capital expenditures must be expensed. Using the above example, the business would take 100% bonus depreciation on $150,000 of capital expenditures, resulting in a $50,000 loss which could reduce other types of similar income or be carried forward to next year. The loss can be carried forward indefinitely but is limited to 80% of taxable income in the year utilized.

Bonus depreciation is scheduled to expire on December 31, 2026, but will reduce from 100% in 2022 to 80% in 2023; 60% in 2024; 40% in 2025 and 20% in 2026.

In addition to Section 179 expensing and bonus depreciation, customers should be aware of the de minimis safe harbor election. This election allows a business to expense up to $2,500 per invoice or per item without applicable financial statements. If a business has an applicable financial statement (generally an audit), then the limit is $5,000 per invoice or per item. In order to expense under this election, the business must expense in their financial statements. The de minimis safe harbor election applies to purchased or produced tangible property. Tangible property is generally everything other than real estate used in a business trade or rental property. Examples would be machinery and equipment, furniture, computers, tools, signs and materials and supplies.