

THE 2018 GUIDE TO SECTION 179

WHAT IS SECTION 179?

Section 179 is a tax deduction that enables businesses to depreciate assets as an expense in the first year, or the year they purchased the asset. All assets must be put to use by December 31 of the tax year.

Asset Depreciation

Let's say you purchase a backhoe for \$200,000. With that \$200,000 backhoe, what typically happens is that it depreciates, or loses value, over its life. A piece of equipment like this backhoe usually has a five year lifespan. What you end up doing normally is dividing the cost of that asset by its number of expected years.

Asset Depreciation with Section 179

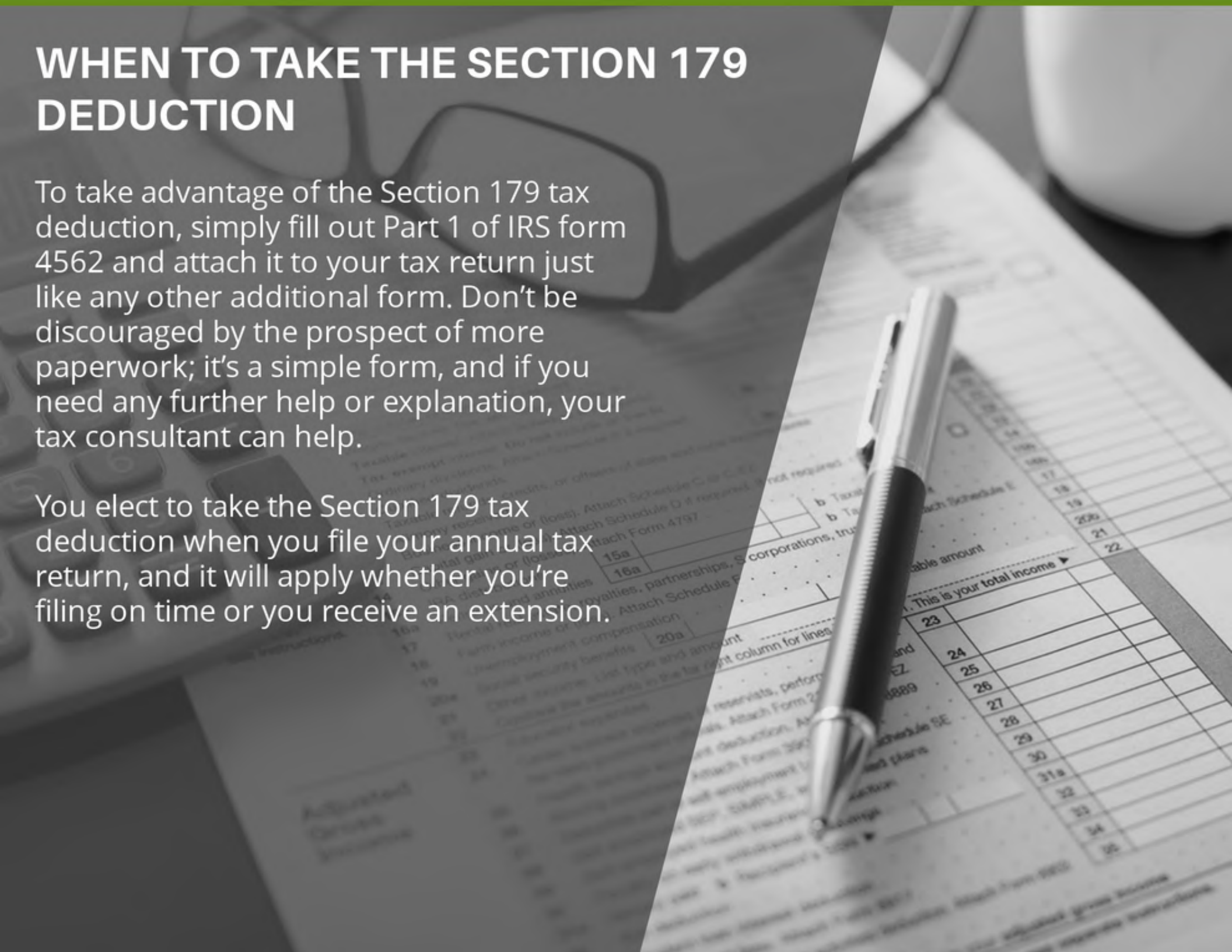
You can use Section 179 to capitalize your assets and put them on the balance sheet, meaning they don't become an expense for the company. Depreciating assets all in the first year helps to reduce your overall profit, which is the figure you ultimately end up paying taxes on. Long story short, you pay less in taxes.



WHEN TO TAKE THE SECTION 179 DEDUCTION

To take advantage of the Section 179 tax deduction, simply fill out Part 1 of IRS form 4562 and attach it to your tax return just like any other additional form. Don't be discouraged by the prospect of more paperwork; it's a simple form, and if you need any further help or explanation, your tax consultant can help.

You elect to take the Section 179 tax deduction when you file your annual tax return, and it will apply whether you're filing on time or you receive an extension.



SECTION 179 ELIGIBLE PROPERTY

There are several business assets that qualify for Section 179, and we outline those better in the table provided. Another caveat of Section 179 is that the equipment must be new to you; this means that if you already have equipment purchased in previous years, you cannot utilize Section 179. However, you can utilize it if you buy used equipment that is new to your business.

Section 179 Eligible Property

Automobiles	Office Furniture
Computers	Signs (if movable)
Machinery & Equipment	Tractors
Office Equipment	Trucks

Section 179 Qualifying Conditions

Tangible property or hard assets (such as machines, equipment, furniture)	Certain other tangible property used for specified purposes
Single-purpose agricultural or horticultural structures	Must be acquired for business use
Certain storage facilities	Off-the-shelf computer software placed in service during tax year



WHAT ARE THE MAIN RESTRICTIONS FOR SECTION 179?

Property Not Eligible	
Billboards (if not movable)	Land
Buildings	Landscaping
Docks	Swimming Pools
Fences	Trailers (non-mobile)

Section 179 Non-Qualifying Conditions
Property not used in trade or business
Buildings
Property used 50% or less in a trade or business
Property acquired by gift, inheritance, or trade
Property purchased from certain related parties
Property outside of the United States
Property used by tax-exempt organizations, governmental units
Property used by foreign persons or entities
Property held by an estate or trust
Soft assets

WHAT ARE THE MONETARY LIMITS OF SECTION 179?

As of January 1, 2018, businesses that purchase \$2.5 million or less in equipment can deduct up to \$1 million of that expense. This is in effect until further notice, and will likely be the standard for the next couple of years.

Once your Section 179 limit has been reached, Bonus Depreciation kicks in. Bonus Depreciation allows you to deduct a substantial amount of a new or used long-term asset's cost in the first year, instead of depreciating the cost over many years. If you've purchased over \$2.5 million in new to you equipment, you can depreciate 100% of the asset in the first year. This goes into effect for long-term assets placed in service after September 27, 2017, and remains in effect until January 1, 2023.

After that, the first-year bonus depreciation deduction amount decreases, as follows:

- 80% for property placed in service in 2023
- 60% for property placed in service in 2024
- 40% for property placed in service in 2025
- 20% for property placed in service in 2026

HOW TO CALCULATE SECTION 179

In the first example below, you can see a detailed overview of your savings if you take advantage of the Section 179 tax break. If you purchase \$250,000 in equipment, you can earn \$52,500 in savings, decreasing the total amount you spend to \$197,500. The second example shows the detailed overview of the bonus savings should you spend over \$2.5 million on equipment and be eligible for bonus depreciation.

Section 179 Example

Cost of Equipment	\$250,000.00
Section 179 Deduction	\$250,000.00
Total First Year Deduction	\$250,000.00
Cost of Savings on Equipment Purchase	\$52,500.00
Lowered Cost of Equipment After Tax Savings	\$197,500.00

Bonus Depreciation Example

Cost of Equipment	\$3,000,000.00
Section 179 Deduction	\$1,000,000.00
100% Bonus Depreciation Deduction	\$2,000,000.00
Regular First Year Depreciation	\$0.00
Total First Year Deduction	\$3,000,000.00
Cost of Savings on Equipment Purchase	\$630,000.00
Lowered Cost of Equipment After Tax Savings	\$2,370,000.00

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