



SECTION 179 TAX DEDUCTION

Even if you do not know its name, if you have ever done taxes for a business you own, you most likely have already claimed a Section 179 Deduction. In this article, we will go over Section 179 and how it helps business owners nationwide reduce tax liability, as well as exclusions that apply.

SECTION 179 FAST FACTS:

- **SECTION 179 WAS MADE TO HELP YOUR BUSINESS**

Section 179 allows businesses to deduct the purchase price of the equipment they financed or bought in 2019 (with a limit of \$1,000,000). Section 179 is applicable every year and is a great incentive for business owners to finance and lease equipment.

- **SECTION 179 IS FOR EQUIPMENT THAT WAS FINANCED**

The deduction is applicable on necessary equipment or items purchased by business to run the business. If you financed or leased a semi-truck, trailer, heavy equipment, machinery etc, you can receive this deduction. The equipment must have been placed into service by December 31, 2019.

- **SECTION 179 MAY HELP YOUR BOTTOM LINE**

By allowing you to deduct the full cost of the equipment, you can lower the amount you pay for it by a large amount. These benefits are even better if you have leased or financed your equipment.

- **SECTION 179 IS APPLICABLE ON EQUIPMENT FINANCED BEFORE 12/31/19**

Your equipment must have been purchased, leased or financed and used by your business before December 31, 2019, or the last day of the the year that you are taking the deduction.

- **SECTION 179 CHANGES FROM YEAR TO YEAR**

While congress have raised the deduction limit over the years, there also have been periods where it was reduced. The most accurate way to stay on top of Section 179 information is to visit Section179.org on a regular basis.

WHAT IS THE SECTION 179 DEDUCTION?

Normally, business owners depreciate the value of an asset over many years, using a variety of accounting tricks. Section 179 allows a business to write-off the entirety of an asset's value for the year of initial use as an expense rather than as an asset, allowing the business owner to frontload the tax savings, reduce income taxes for the year, and effectively reduce the cost of purchase.

The amount a business may claim under Section 179 Deduction has an annual limit. The Tax Cuts and Jobs Act of 2017 (commonly known as the "Trump Tax Cuts" because it was signed into law under the Trump Administration) increased the **maximum tax savings** of an individual business from \$500,000 to \$1,000,000, while also being indexed for inflation. Additionally, the maximum amount of spent **money a business can claim** increased from \$2,000,000 to \$2,500,000. This means if your business' average tax rate is 20%, the largest deduction your business can get is \$500,000. The maximum tax savings and maximum claim for each year are tied to inflation and are subject to change with each year.

Business equipment that qualifies is almost any asset with a useful life beyond one year. This includes buildings, computers, office buildings, and trucks.

EXCEPTIONS TO THE SECTION 179 DEDUCTION

Because the tax code can never be completely simple, exceptions apply. Assets must have a useful life of over one year. Snacks, office supplies such as pencils, and month-to-month subscriptions are not eligible for this Deduction.

If an asset is used for anything other than business, only the percentage of business use can be written-off. Furthermore, if the business use is less than half, then nothing

can be written off. If purchasing a smartphone for business, make sure to use it more often for work than for calling your mom, or else you run the risk of losing all your deduction!

Additionally, the amount deducted from your tax bill as a result of your deduction cannot exceed the [business' income for that year](#). Hypothetically, if your business purchases \$2,500,000 in trucks, has a 25% average tax rate, and generates \$400,000 in income for the year, the maximum your business can claim in deductions is \$400,000. Fortunately, the additional \$225,000 in [deductions can be carried over](#) to the next year.

Software must have non-exclusive use. Purchasing tax preparation software from a retailer is eligible for the deduction, but a purchased website does not, as only your business can use it.

Vehicles have a complicated set of exceptions. Generally speaking, if a vehicle's original intended purpose is not for business (such as a Honda Accord bought from a dealership), the maximum deduction a business can claim on it ranges from \$11,160 to \$11,560, even if the vehicle is used entirely for business.

There are exceptions to this exception, however: a Honda Accord with an exterior painted to advertise the business is fully claimable for the Deduction. Vehicles originally intended for businesses, such as [Semi-Trucks](#), dump trucks, and forklifts are fully eligible for the deduction.

The Section 179 Deduction is “use it or lose it” for the [year of purchase](#). If your business purchases \$350,000 worth of equipment in 2020, it cannot write-off \$250,000 for its 2020 tax year and then \$100,000 in the next year, unless it follows the exceed income example stated above.

Since larger corporations are more likely to purchase business equipment exceeding \$2,500,000 in a year, the current Section 179 Deduction leans in favor of smaller businesses and the middle class. Additionally, if your business does not start using the equipment the same year it is [purchased or leased](#), the Deduction is lost.

DIFFERENCE BETWEEN SECTION 179 & BONUS DEPRECIATION

Section 179 might sound a lot like Bonus Depreciation, another tax incentive program provided by the IRS to encourage investment. The difference between the two is that Section 179 loads 100% of the depreciation in the year of use and purchase, whereas bonus depreciation loads only a larger portion (currently, up to an amount equal to the tax % rate) into the first year and continues depreciating afterward.

For example, say a company just purchased an asset worth \$100,000 and its marginal tax rate was 18%. If the company uses Section 179, it will write off \$100,000 as an expense. By using Bonus Depreciation, a company would instead write off \$18,000 for year 1 and continue depreciating the asset further in later years.

Essentially, the difference is in whether the dollar value written off in year 1 is whole or proportional. A company starting out that needs more cash on hand, or a company that expects its tax liability in future years to be less than today, would be wise to use Section 179. A company that expects to move into a higher tax bracket in the future and does not need the extra cash flow should probably claim Bonus Depreciation.

USING THE SECTION 179 DEDUCTION TO YOUR ADVANTAGE

Utilizing Section 179 Deduction allows a company to reduce the effective cost of purchasing or leasing brand-new or “new to you” equipment, with a higher tax rate leading higher savings. If a company purchases \$2,000,000 in transport equipment, uses it exclusively for business and has a 40% average tax rate, a company can save \$800,000 on their tax bill, making the transport equipment effectively cost \$1,200,000 instead. This Deduction motivates companies to invest in their business to make it grow.

FORM 4562

The IRS form for Section 179, Form 4562, has been updated for the 2019 tax year. The [2019 version](#) can be found here. The IRS also has [instructions](#) to help make filling the form easier. Keep in mind that Form 4562 covers most, if not all, forms of depreciation. Section 179 relates to Part 1. Other Parts cover things such as MACRS depreciation (depreciation over time) and amortization (depreciation of an intangible asset, such as a patent becoming close to expiring). Assuming you own a trucking business, you will absolutely need to fill out Part 5 before starting Part 1, as Part 5 pertains to most vehicular use. The IRS places the most important sections before the less important sections, even if the less important sections can determine whether or not you need to fill out the more important sections, so prepare to jump around the pages quite a bit when filling out Form 4562. In fact, if you are a fleet owner who provides vehicles to your employees, you very well might want to start at Part 6 and work your way backward!

Make sure to keep a copy of your Form 4562 for next year; this year’s line 13 is next year’s line 10 (both lines pertain to carryover of disallowed deduction and lead to a lower tax liability)..

[CLICK FOR FORM 4562](#)

DIFFERENCES FOR SECTION 179 BETWEEN 2019 AND 2020

The only truly notable change (for now) is the limits for Section 179 being raised due to inflation. In 2019 the [inflation rate](#) was approximately 2%, so the maximum savings and claimed deductions both increase by 2%.

If there are any substantial changes to the tax law regarding Section 179 between now and the end of 2020, we will be sure to update this article. Be sure to bookmark and check often for any news regarding Section 179 in 2019.

Interested in using the Section 179 Deduction to expand your trucking business? TopMark Funding has a variety of different [truck financing](#) programs for your next [semi-truck](#) or [commercial vehicle](#). Whether you have excellent or less-than-excellent credit, we can get you the best possible rate! Contact us for a free no-obligation quote that will not impact your credit score.

This article does not constitute legal tax advice. Every business is different and as such has different

DOES YOUR BUSINESS NEED EQUIPMENT FINANCING?

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This article does not constitute as legal tax advice. Every business is different and as such has different tax needs. Talk to a certified tax preparer to fully utilize Section 179 to your business' own advantage

