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TAX UPDATE: Section 179 First-Year Deductions Have Increased – Beat the 2023 Phase Out Now

The changes to the Section 179 deduction over the last several years are too numerous to mention, going all the way back to those implemented in 2008 by then President Bush. The latest change came with the passage and signing into law of the CARES Act in March 2020. Until further notice, the Section 179 deduction has been increased to $1,050,000 for 2021 and beyond. The limit on equipment purchases likewise has increased to $2.62 million. Bonus depreciation is now 100% and is good through 2022, after which it will be phased downward over a four-year period: 80% in 2023, 60% in 2024, 40% in 2025, and 20% in 2026. He time to act is now, especially since bonus depreciation now includes used equipment.

It is thus an exceptionally good time to buy a new or pre-owned coach to be used in your business.

<u>The Immediate Deduction Advantage for New & Used Coaches</u>

A taxpayer may elect to expense the cost of any section 179 property and deduct it in the year the property is placed in service. The CARES Act of 2020 increased the maximum deduction from $1 million to $1,050,000. It also increased the phase-out threshold from $2.5 million to $2.62 million.

The 2017 revisions which increased the bonus depreciation percentage to 100 percent for qualified property acquired and placed in service after Sept. 27, 2017, and before Jan. 1, 2023 are still in place. The bonus depreciation percentage for qualified property that a taxpayer acquired before Sept. 28, 2017, and placed in service before Jan. 1, 2018, remains at 50 percent. Special rules apply for longer production period property and certain aircraft.

The definition of property eligible for 100 percent bonus depreciation was expanded to include used qualified property acquired and placed in service after Sept. 27, 2017, if all the following factors apply:

- The taxpayer didn't use the property at any time before acquiring it.
- The taxpayer didn't acquire the property from a related party.
- The taxpayer didn't acquire the property from a component member of a controlled group of corporations.
- The taxpayer's basis of the used property is not figured in whole or in part by reference to the adjusted basis of the property in the hands of the seller or transferor.
- The taxpayer's basis of the used property is not figured under the provision for deciding basis of property acquired from a decedent.

Also, the cost of the used qualified property eligible for bonus depreciation cannot include any carryover basis of the property, for example in a like-kind exchange or involuntary conversion.

Section 179 is simple. You buy, finance, or lease qualifying equipment, vehicles, and/or software, and then take a full tax deduction on it <u>for this year</u>. This deduction allows the cost of qualifying new and used depreciable assets (including most software) to be substantially written off in Year One. The equipment, vehicle(s), and/or software must be used for business purposes more than 50% of the time to qualify for the Section 179 Deduction.

New Coach Purchase of $2,000,000: A new coach purchaser can now receive the benefit of the increased small businesses deduction for the first $1,050,000. The §179 deduction is phased out $1 per $1 when the investment limit of $2,620,000 is reached. As a result, the purchaser can claim a deduction of $1,050,000 and then apply the 100% bonus depreciation for new equipment to the remaining $1,000,000, see example on the reverse side.

Pre-Owned Coach Purchase of $825,000: Deduct up to the first $1,050,000 of the purchase price under §179. And because Bonus Depreciation now applies to used equipment, if the purchase price exceeds $1,050,000, the remainder can also be deducted just like with a new coach.

Increased Expensing for Small Businesses under §179

This deduction encourages businesses to expand by allowing a deduction for a portion of business investment purchases and investment costs. Congress increased the deduction and income phase-out limits to $1,050,000 and $2,620,000, respectively, for 2021. Total purchases of qualified property that exceed $2.62 million reduce the taxpayer's expense allowance dollar for dollar and the entire deduction goes away once $3.67 million in purchases is reached. Beginning in 2019, the deduction and phase-out threshold amount are subject to inflation. To qualify for the bonus §179 expensing (the election to deduct as an expense rather than to depreciate up to a specified amount of the cost), the qualifying property can be either new or used when placed in service during the tax year involved. Qualifying property is tangible personal property purchased for use in the active conduct of a trade or business. In addition, the following requirements must be met:

- The amount to be expensed cannot exceed the taxable income derived from the business;
- The parties to the transaction cannot be a related; and
- The acquisition transaction cannot be between two members of the same controlled group.

Bonus Depreciation for New & Used Property

Bonus depreciation can be confusing because it was offered previously some years, and not in others. Right now, in 2021, it's being offered at 100%. The most important difference in 2021 is that the threshold limits have been increased. As before, both new and used equipment still qualify for the Section 179 Deduction (as long as the used equipment is "new to you").

Bonus Depreciation is useful to very large businesses spending more than the Section 179 purchase limit (currently $2,620,000) on new capital equipment. Also, businesses with a net loss are still qualified to deduct some of the cost of new equipment and carry-forward the loss.

When applying these provisions, Section 179 is generally taken first, followed by Bonus Depreciation – unless the business had no taxable profit, because the unprofitable business is allowed to carry the loss forward to future years. Consult your tax advisor to determine what is best for your business.

EXAMPLE

Purchase Price:	**$1,150,000**
1st Year §179 Write-Off	$1,050,000
100% Bonus 1st Year Depreciation	$ 140,000
Normal Depreciation	$ 0
Total 1st Year Deduction	$1,150,000
Cash Savings @ 35%	$ 402,500
Coach Cost after tax	**$747,500**

For more information on this topic, or any other legal questions that you may have, please contact John Wagener at 312-602-7369 or visit our Firm's website at www.dresslerpeters.com.

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