

LAGUNA

IRS 179 TAX LAW FOR 2022

Section 179 at a Glance for 2022

2022 Deduction Limit = \$1,080,000

This deduction is good on new and used equipment, as well as off-the-shelf software. To take the deduction for tax year 2022, the equipment must be financed or purchased and put into service between January 1, 2022 and the end of the day on December 31, 2022.

2022 Spending Cap on equipment purchases = \$2,500,000

This is the maximum amount that can be spent on equipment before the Section 179 Deduction available to your company begins to be reduced on a dollar for dollar basis. This spending cap makes Section 179 a true “small business tax incentive” (because larger businesses that spend more than \$3.5 million on equipment won’t get the deduction.)



Bonus Depreciation: 100% for 2022

Bonus Depreciation is generally taken after the Section 179 Spending Cap is reached. The Bonus Depreciation is available for both new and used equipment.

2022 Section 179

Example Calculation

Equipment Purchases:	\$500,000.00
100% Bonus First Year Depreciation: (updated to 100% via Tax Cuts and Jobs Act)	\$500,000.00
Normal First Year Depreciation: (20% in each of 5yrs on remaining amount)	\$0
Total First Year Deduction: (\$1,080,000 + 150,000 + 0)	\$500,000.00
Cash Savings: (\$1,150,000 x 35% tax rate)	\$175,000.00
Equipment cost after Tax: (assuming a 35% tax bracket)	\$325,000.00

What is the Section 179 Deduction?

Most people think the Section 179 deduction is some mysterious or complicated tax code. It really isn't, as you will see below.

Essentially, Section 179 of the IRS tax code allows businesses to deduct the full purchase price of qualifying equipment and/or software purchased or financed during the tax year. That means that if you buy (or lease) a piece of qualifying equipment, you can deduct the FULL PURCHASE PRICE from your gross income. It's an incentive created by the U.S. government to encourage businesses to buy equipment and invest in themselves.

Several years ago, Section 179 was often referred to as the “SUV Tax Loophole” or the “Hummer Deduction” because many businesses have used this tax code to write-off the purchase of qualifying vehicles at the time (like SUV's and Hummers). But that particular benefit of Section 179 has been severely reduced in recent years (see ‘Vehicles & Section 179 for current limits on business vehicles.)

However, despite the SUV deduction lessened, Section 179 is more beneficial to small businesses than ever. Today, Section 179 is one of the few government incentives available to small businesses and has been included in many of the recent Stimulus Acts and Congressional Tax Bills. Although large businesses also benefit from Section 179 or Bonus Depreciation, the original target of this legislation was much needed tax relief for small businesses – and millions of small businesses are actually taking action and getting real benefits.

Here's How Section 179 works:

In years past, when your business bought qualifying equipment, it typically wrote it off a little at a time through depreciation. In other words, if your company spends \$50,000 on a machine, it gets to write off (say) \$10,000 a year for five years (these numbers are only meant to give you an example).

Now, while it's true that this is better than no write-off at all, most business owners would really prefer to write off the entire equipment purchase price for the year they buy it.

And that's exactly what Section 179 does – it allows your business to write off the entire purchase price of qualifying equipment for the current tax year.

This has made a big difference for many companies (and the economy in general). Businesses have used Section 179 to purchase needed equipment right now, instead of waiting. For most small businesses, the entire cost of qualifying equipment can be written-off on the 2022 tax return (up to \$1,080,000).

Limits of Section 179

Section 179 does come with limits – there are caps to the total amount written off (\$1,080,000 for 2022), and limits to the total amount of the equipment purchased (\$2,500,000 in 2022). The deduction begins to phase out on a dollar-for-dollar basis after \$2,500,000 is spent by a given business (thus, the entire deduction goes away once \$3,500,000 in purchases is reached), so this makes it a true small and medium-sized business deduction.

Who Qualifies for Section 179?

All businesses that purchase, finance, and/or lease new or used business equipment during tax year 2022 should qualify for the Section 179 Deduction (assuming they spend less than \$3,500,000).

Most tangible goods used by American businesses, including “off-the-shelf” software and business-use vehicles (restrictions apply) qualify for the Section 179 Deduction.

For basic guidelines on what property is covered under the Section 179 tax code, please refer to this list of qualifying equipment. Also, to qualify for the Section 179 Deduction, the equipment and/or software purchased or financed must be placed into service between January 1, 2022 and December 31, 2022.

What's the difference between Section 179 and Bonus Depreciation?

Bonus depreciation is offered some years, and some years it isn't. Right now in 2022, it's being offered at 100%.

The most important difference is both new and used equipment qualify for the Section 179 Deduction (as long as the used equipment is “new to you”), while Bonus Depreciation has only covered new equipment only until the most recent tax law passed. In a switch from recent years, the bonus depreciation now includes used equipment. Bonus Depreciation is useful to very large businesses spending more than the Section 179 Spending Cap (currently \$2,500,000) 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.

Section 179's “More Than 50 Percent Business-Use” Requirement

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. Simply multiply the cost of the equipment, vehicle(s), and/or software by the percentage of business-use to arrive at the monetary amount eligible for Section 179.