Uncle Sam Helps You Pay for Equipment with Section 179 and Bonus Depreciation Tax Breaks

It has already been two years since we had the first really big change to the tax code in decades. Among other things, The Tax Cuts and Jobs Act lowered the corporate income tax rate from 35 percent to 21 percent and paved the way for the full deduction of capital investments in the year they're placed in service until 2022.

The full deduction has done a lot to help small, medium, and large businesses buy equipment and software. These businesses simply take the full purchase amount and deduct it from their federal return in the first year instead of spreading it out of over 5 years (average). That's a 100% deduction of the purchase price of equipment/software placed in service during your tax year.

Both the $1 Purchase Option Lease and Equipment Finance Agreement (EFA) are eligible for this deduction.

The two ways to make this deduction are Section 179 and Bonus Depreciation. The Jobs Act increased the Section 179 deduction to $1 million and increased the phase out limit from $2 million to $2.5 million. It also increased the Bonus Depreciation deduction from 50% to 100%. Whichever asset you decide to finance, it will most likely qualify for Section 179 expensing *and* Bonus Depreciation. Your accountant or tax advisor can tell you which benefit is best for you. If needed, you can use both methods for a single asset, as long as Section 179 gets used first, then bonus depreciation, and then regular depreciation.

Here are some more details:

- Bonus depreciation increased from 50% to 100% for qualifying equipment both new and used through 2022. Starting in 2023 this will go down to 80%, in 2024 to 60%, in 2025 to 40%, and in 2026 to 20%.
- For Equipment Finance Agreements (EFA) and $1 Out Conditional Sale Agreements the tax benefit is for the lessee (e.g. they would get to deduct 100% of the purchase price in the year of acquisition)

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