

Section 179 Tax Deduction

What is the Section 179 Deduction?

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 (for example, the equipment must be put into service between January 1st and December 31st of the year the deduction is to be taken.) That means that if you buy (or lease) a piece of qualifying equipment, you can deduct the FULL PURCHASE PRICE from your gross income.

Qualifications of Section 179

All businesses that purchase, finance, and/or lease new or used business equipment during tax year 2018 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.

Here is an example of Section 179 at work during this 2018 tax year:

2018 Section 179	
Example Calculation	
Equipment Purchases:	\$ 1,150,000
First Year Write Off: <small>(\$1,000,000 = maximum in 2018)</small>	\$ 1,000,000
100% Bonus First Year Depreciation: <small>(updated to 100% via 'Tax Cuts and Jobs Act')</small>	\$ 150,000
Normal First Year Depreciation: <small>(20% in each of 5yrs on remaining amount)</small>	\$ 0
Total First Year Deduction: <small>(\$1,000,000 + 150,000 + 0)</small>	\$ 1,150,000
Cash Savings: <small>(\$1,150,000 x 35% tax rate)</small>	\$ 402,500
Equipment cost after Tax: <small>(assuming a 35% tax bracket)</small>	\$ 747,500

Limits of Section 179

Section 179 does come with limits – there are caps to the total amount written off (\$1,000,000 for 2018), and limits to the total amount of the equipment purchased (\$2,500,000 in 2018). 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

* The above is a brief overview of the Section 179 Deduction for 2018. For details on limits, qualifying equipment, and Section 179 Qualified Financing, please refer to the [official SECTION 179 website](#).