

SECTION 179 - Overview

- **2011 Deduction Limit** - \$500,000 (up from \$250k previously). Good on new and used equipment, including new software.
- **2011 Limit on equipment purchases** - \$2 Million Dollars (up from \$800k previously).
- **"Bonus" Depreciation** - 100% (taken after the \$500k deduction limit is reached). Note, bonus depreciation is only for new equipment. This can also be taken by businesses that exceed \$2 million in capital equipment purchases.

The above is an overall, "simplified" view of the Section 179 Deduction for 2011. For more details on limits and qualifying equipment, as well as Section 179 Qualified Financing, please peruse this entire website.

An example of Section 179 at work:



2011 Equipment Purchases:	\$ 650,000
First Year Write Off: (Under the new law, \$500,000 is the maximum Section 179 write-off in 2011)	\$ 500,000
Bonus First Year Depreciation: (On remaining value: \$650k-\$500k = \$150k x 100% = \$150k)	\$ 150,000
Normal First Year Depreciation: (20% depreciation in each of 5yrs)	\$ 0
Total First Year Deduction: (\$500k + \$150k + 0 = \$650k)	\$ 650,000
Tax Savings: (Assume 35% tax rate. \$650k x 35% = \$227.5k)	\$ 227,500
Total Equipment Cost: (\$650k less all tax deductions of \$227.5k)	\$ 422,500

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More detailed Section 179 Information

What is the Section 179 Deduction?

Most people think the Section 179 deduction is some arcane or complicated tax code. It really isn't, as the following will show you.

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.

Today, Section 179 is one of the few incentives contained in any of the recent Stimulus Bills that actually helps small business. Although large businesses also benefit from Section 179 or Bonus Depreciation, the original target of this legislation was much needed tax relief for Small Business - and millions of small businesses are actually taking action and getting real benefit.

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Essentially, Section 179 works like this:

When your business buys certain items of equipment, it typically gets to write them 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*.

In fact, if a business could write off the entire amount, they might add more equipment this year instead of waiting. That's the whole purpose behind Section 179... to motivate the American economy (and your business) to move in a positive direction. For most small businesses (adding total equipment, software, and vehicles totaling less than \$500,000 in 2011), the entire cost can be written-off on the 2011 tax return.

For large businesses adding even more than \$500,000, the write-offs are just as substantial. See the following graphic for an example of the savings that is currently available to you after the 'Tax Relief Act of 2010' passed in December 2010.

Limits of Section 179

Section 179 does come with limits - there are caps to the total amount written off (\$500,000 in 2011), and limits to the total amount of the equipment purchased (\$2,000,000 in 2011). The deduction begins to phase out dollar-for-dollar after \$2 million is spent by a given business, so this makes it a true small and medium-sized business deduction.

After passage of the 'Tax Relief Act of 2010', large businesses that exceed the threshold of \$2 million in capital expenditure can take a Bonus Depreciation of 100% on the amount that exceeds the above limit. Nice.