

GUIDE TO SECTION 179 AND BONUS DEPRECIATION

SECTION
179

★
2016

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Introduction


What You Need To Know

The days of waiting until the end of the year to see if Congress makes adjustments to Section 179 or the bonus depreciation before purchasing equipment are over. The PATH Act outlines some very advantageous provisions for small business owners looking to purchase equipment, which includes many types from heavy machinery to office equipment. This means business owners can now save more money when investing in new equipment to support their business' growth. This can also, in turn, create more jobs.

Business owners are not the only ones who are excited about the passing of the PATH Act.

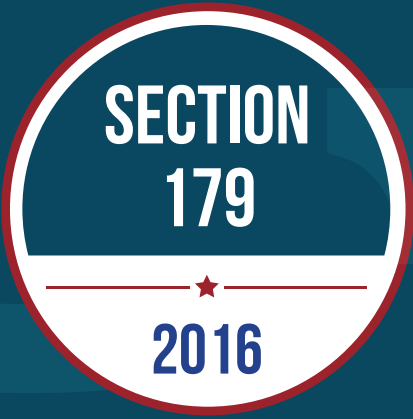
On December 16, 2015, the Speaker of the House, Paul Ryan (R-Wis.), said in a press conference, "I think this is one of the biggest steps toward a re-write of our tax code that we've made in many years. And it will help us start a pro-growth, bold tax reform agenda in 2016."

The main points of the PATH Act that will affect businesses purchasing equipment are the increase and extension of the Section 179 expensing limit and phase-out of bonus depreciation.



"The extension and permanence means no more waiting until the end of the year to scramble purchasing."

WHAT'S NEW IN SECTION 179?



Foreign country name _____

Filing Status

1 Single
 2 Married filing jointly (even if only one has income)
 3 Married filing separately. Enter spouse's SSN on line 6 and full name here. ▶

Check only one box.

Exemptions

6a Yourself. If someone can claim you as a dependent, do not check box 6b or 6c.
 b Spouse
 c Dependents: Last name _____ (2) Dependent's social security number _____ (3) Dependent's relationship to you _____ (4) if child and qualifying for child tax credit (see instructions)

Form W-4 (2015)

Purpose. Complete Form W-4 so that your employer can withhold the correct federal income tax from your pay. Consider completing a new Form W-4 each year and when your personal or financial situation changes.

Exemption from withholding. If you are exempt, complete only lines 1, 2, 3, 4, and 7 and sign the form to validate it. Your exemption for 2015 expires February 16, 2016. See Pub. 505, Tax Withholding and Estimated Tax.

Note. If another person can claim you as a dependent on his or her tax return, you cannot claim exemption from withholding if your income exceeds \$1,050 and includes more than \$350 of unearned income (for example, interest and dividends).

Exceptions. An employee may be able to claim exemption from withholding even if the employee is a dependent, if the employee:

- Is age 65 or older,
- Is blind, or
- Will claim adjustments to income; tax credits; or itemized deductions, on his or her tax return.

The exceptions do not apply to suppliers greater than \$1,000,000.

Basic instructions. If you are not exempt the **Personal Allowances Worksheet** worksheets on page 2 further adjust your withholding allowances based on item deductions, certain credits, adjustments or two-earners/multiple jobs situations.

Complete all worksheets that apply to you. You may claim fewer (or zero) allowable wages, withholding may not be as high as you claimed and may not be a full percentage of other wages.

Head of household. Generally of household filing status on your return you are unmarried and pay more than half the costs of keeping up a home for yourself, your dependent(s) or other qualified person. See Pub. 501, Exemptions, Standard Deduction, and Filing Information, for more information.

Tax credits. You can take a credit for your allowable non-refundable tax credits for child or dependent care credit. See the **Worksheet** below. See P-1099-NEC for more information on converting your other credit.

Personal Allowances Worksheet

- A** Enter "1" for yourself if no one else can claim you as a dependent.
- B** Enter "1" if:
- You are single and have only one job; or
 - You are married, have only one job, and your spouse is not claiming you as a dependent.
- C** Enter "1" for your spouse. But, you may choose to enter "0" if you are the only earner in your household.
- D** Enter number of dependents (other than your spouse) for whom you are claiming an exemption on this return.
- E** Enter "1" if you will file as head of household on your return.
- F** Enter "1" if you have at least \$2,000 of child or dependent care expenses.
- G Child Tax Credit** (including additional child tax credit). Enter "1" if:
- If your total income will be less than \$65,000 and you have two to four eligible children or less "2" if your total income will be between \$65,000 and \$130,000.
 - If your total income will be between \$65,000 and \$130,000 and you have one eligible child.
- H** Add lines A through G and enter total here. (Note: If you are claiming the credit for other dependents, you must also enter the number of other dependents on line 11.)
- For accuracy, complete all worksheets that apply.
- If you plan to itemize or use the **Adjusted Gross Income Worksheet**.
 - If you are single and have more than one job or avoid having too little income.
 - If neither of the above.

Form **W-4** Department of the Treasury Internal Revenue Service

Employer

▶ Whether you are subject to review

1 Your first name and middle initial _____

Home address (number and street) _____

City or town, state, and ZIP code _____

Form **1120** Department of the Treasury Internal Revenue Service

Check if:

a Consolidated return (attach Form 990)

b Life/nonlife consolidated return (attach Form 990)

2 Personal holding company (attach Schedule C)

3 Personal service corporation (see instructions)

4 Schedule M-3 attached

TYPE OR PRINT

Income

1a Gross receipts or sales

b Returns and allowances

c Balance. Subtract line 1b from line 1a

2 Cost of goods sold (attach Form 990)

3 Gross profit. Subtract line 2 from line 1c

4 Dividends (Schedule C, line 19)

5 Interest

6 Gross rents

7 Gross royalties

8 Capital gain net income

9 Net gain or (loss) from Form 4797, Part II

10 Other income (see instructions)

11 **Total income.** Add lines 3 through 10.

Deductions (See instructions for limitations on deductions.)

12 Compensation of officers—attach statement

13 Salaries and wages (see instructions)

14 Repairs and maintenance

15 Bad debts

16 Rents

17 Taxes and licenses

18 Interest

19 Charitable contributions

20 Depreciation from Form 4562 not claimed on Form 990

21 Depletion

22 Advertising

23 Pension, profit-sharing, etc., plans

24 Employee benefit programs

25 Domestic production activities deduction (attach Form 990)

26 Other deductions (attach statement)

27 **Total deductions.** Add lines 12 through 26.

28 Taxable income before net operating loss deduction

29a Net operating loss deduction (see instructions)

b Special deductions (Schedule C, line 20)

c Add lines 29a and 29b

30 **Taxable income.** Subtract line 29c from line 28.

31 Total tax (Schedule J, Part I)

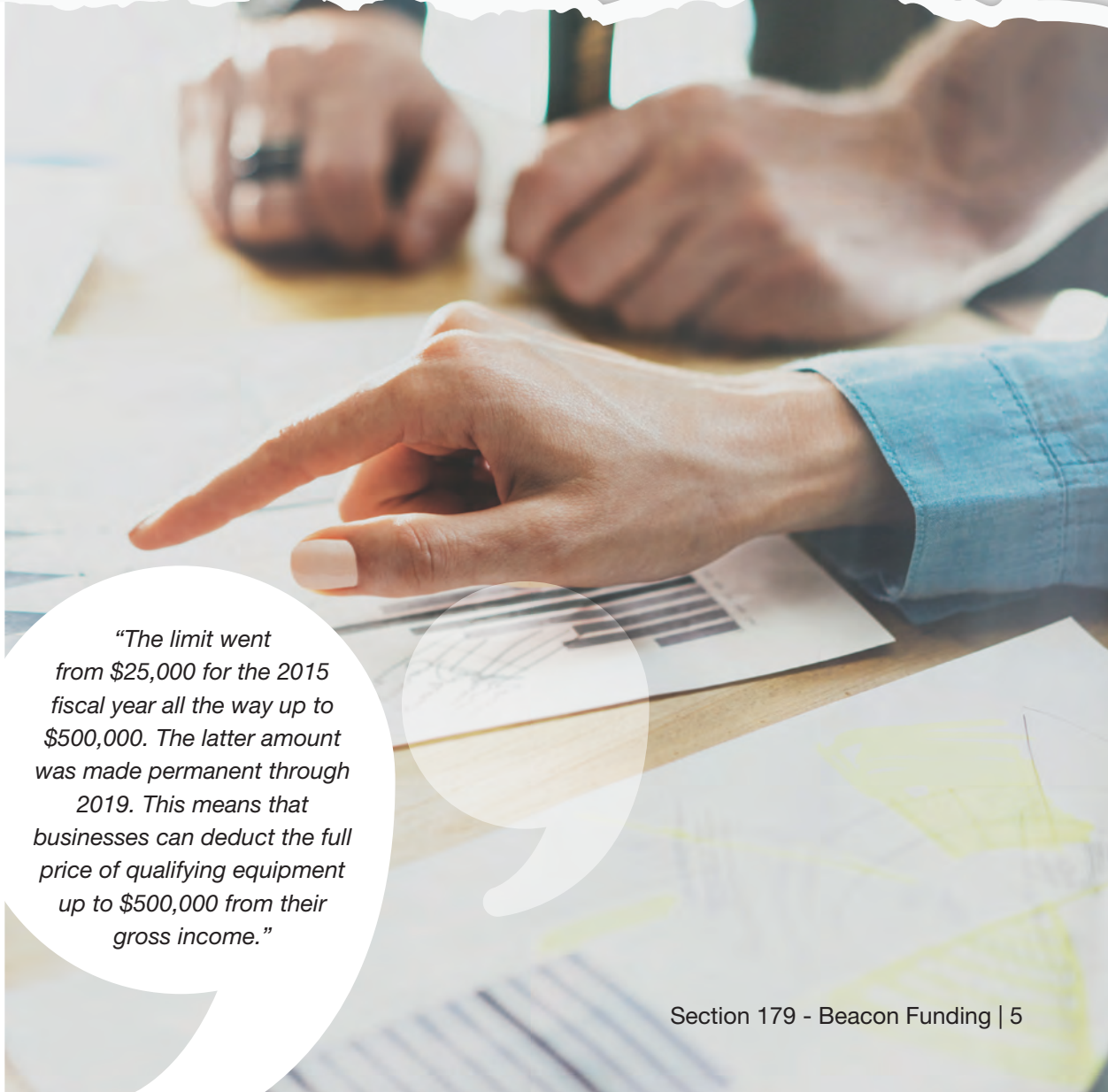
32 Total payments (Schedule J, Part II)

33 Estimated tax payments

34 Refundable credits, and other payments

What's New In Section 179?

Perhaps the part of the PATH Act that most small business owners have been waiting for is the increase of the Section 179 expensing limit. The limit went from \$25,000 for the 2015 fiscal year all the way up to \$500,000. The latter amount was made permanent through 2019. This means that businesses can deduct the full price of qualifying equipment up to \$500,000 from their gross income (starting next year, air conditioning and furnace units are considered qualifying equipment). Businesses that spend more than \$2 million –but less than \$2.5 million – in a fiscal year on qualifying equipment will get a dollar-for-dollar phase out cap.

A close-up photograph of a person's hand pointing at a document on a desk. The hand is wearing a blue shirt sleeve. The document has some yellow highlights. In the background, another person's hand is visible, holding a pen over a document.

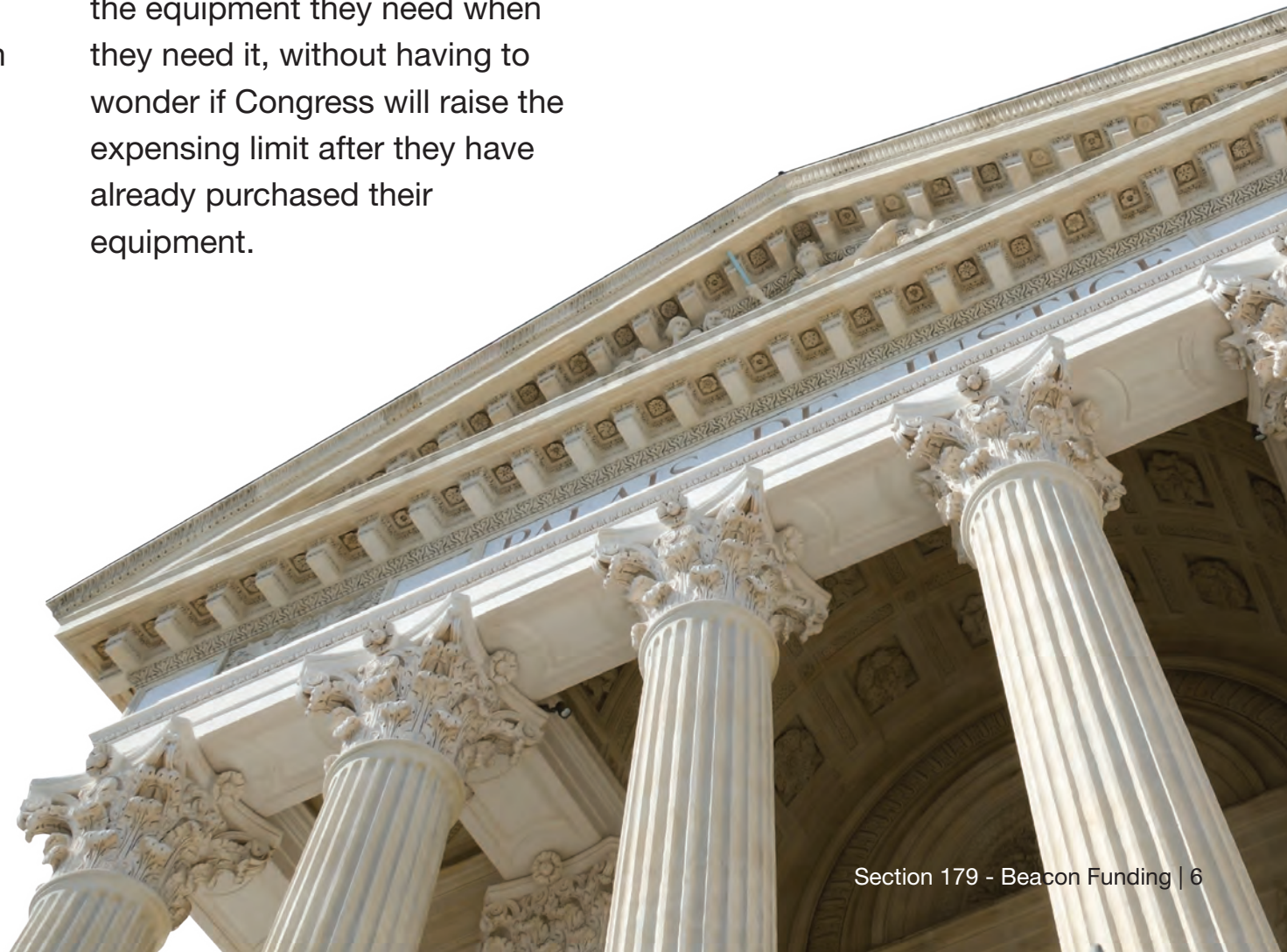
“The limit went from \$25,000 for the 2015 fiscal year all the way up to \$500,000. The latter amount was made permanent through 2019. This means that businesses can deduct the full price of qualifying equipment up to \$500,000 from their gross income.”

What's New In Section 179?

Many of the enhancements in the PATH Act will expire at the close of 2016, with the exception of four provisions. One of those exceptions was Section 179, which was extended through the end of 2019. This alleviates a lot of year-end stress for small businesses.

The extension and permanence means no more waiting until the end of the year to scramble purchasing, taking delivery, and using your equipment before December 31st hits.

Now businesses can purchase the equipment they need when they need it, without having to wonder if Congress will raise the expensing limit after they have already purchased their equipment.




CHANGES TO BONUS DEPRECIATION



Changes To Bonus Depreciation

Along with the extension and increase to the Section 179 expensing limit, the PATH Act also outlined some coming changes for businesses that plan to purchase new equipment. The bill previously allowed the full 50% depreciation. However, at the beginning of 2016, the PATH Act started to phase-out bonus depreciation. Through the end of 2017, business owners will still be able to depreciate half the cost of any qualifying equipment on their taxes, while the rest depreciates over the remaining life of the equipment.

A close-up photograph of a person's hands working at a desk. One hand is pointing at a document, while the other holds a pen. A keyboard is visible in the background. The image is framed with a torn paper effect.

“Through the end of 2017, business owners will still be able to depreciate half the cost of any qualifying equipment on their taxes, while the rest depreciates over the remaining life of the equipment.”

Changes To Bonus Depreciation

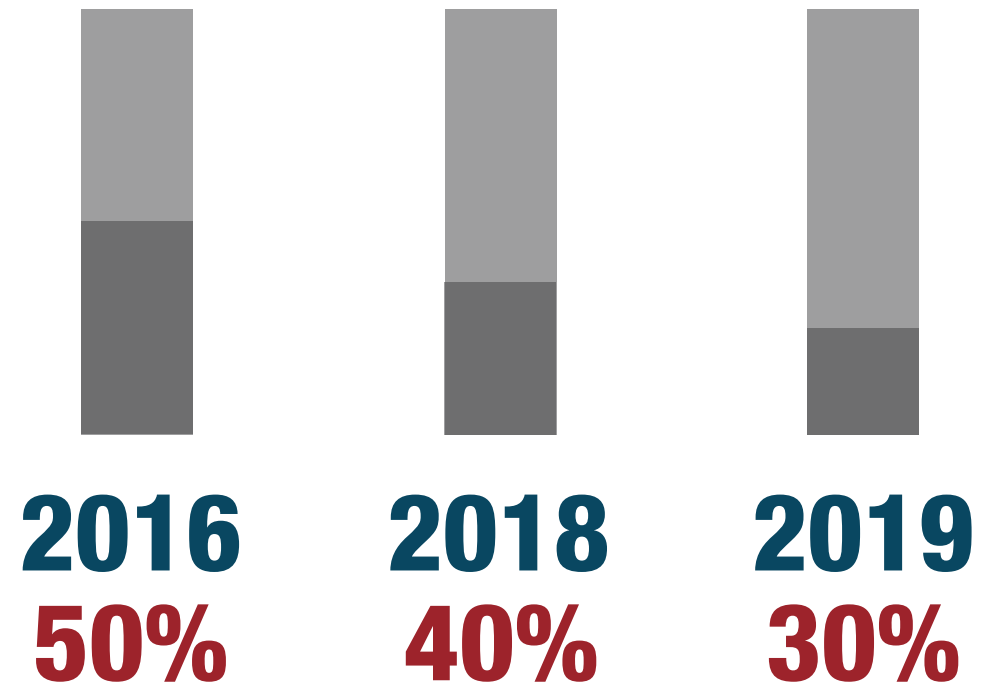
Beginning in 2018, the depreciation bonus dips slightly to 40%, and then dips again to 30% in 2019. Despite eventually being phased out, businesses still have three full years to take advantage of the bonus depreciation.

Both of these provisions were designed to aid business owners when it comes to the growth of their businesses.

You can apply this to your own business. Having more equipment can mean expanding operations, creating jobs, and, most importantly, investing in the future of your business.

BONUS DEPRECIATION PERCENTAGES

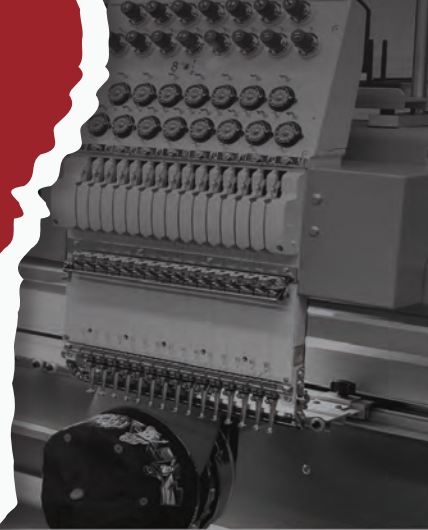
PRICE OF EQUIPMENT



“Beginning in 2018, the depreciation bonus dips slightly to 40%, and then dips again to 30% in 2019.”

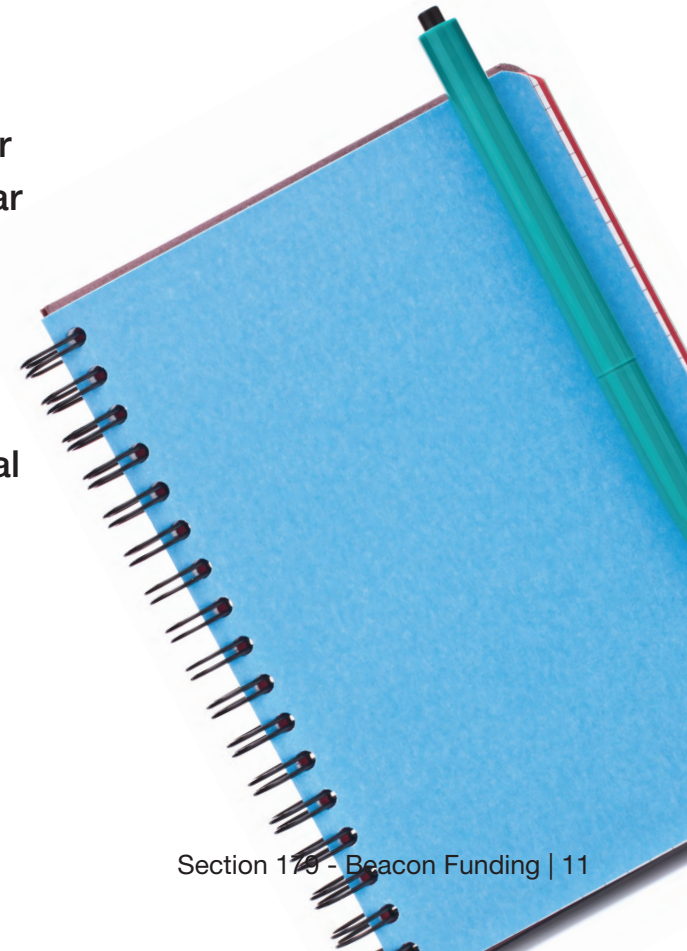
WHAT DOES THIS MEAN FOR YOU?

Points To Take Away



Key Points Of Section 179

- 1** You can deduct the full price of qualifying equipment up to \$500,000 from your gross income.
- 2** You can spend up to \$2 million on qualifying equipment.
- 3** Section 179 doesn't increase the amount you as a small business owner can deduct. It lets you get your entire depreciation deduction in one year instead of taking it little by little over the term of an asset's useful life. This is called first-year expensing or Section 179 expensing (a.k.a. deducting a long-term asset).
- 4** Equipment only applies for Section 179 deduction if its tangible personal property used in your business long-term more than 50% of the time.
- 5** You must use the equipment over half the time for your business in the year you buy it. You can't convert property you previously used for personal use to business use.



SECTION 179 DEDUCTION EXAMPLES



Section 179 Deduction Examples:

Equipment Cost: \$25,000

Section 179 Deduction: \$25,000

Bonus Depreciation: \$0

1st Year Depreciation: \$0

Total First Year Deduction: \$25,000

Tax Savings (Based on 35% Tax Bracket): \$8,750

Equipment Cost after Tax Savings: \$16,250

To determine your own Section 179 Tax Savings visit our Calculator: beaconfunding.com/section179

Section 179 Deduction Examples:

Equipment Cost: \$50,000

Section 179 Deduction: \$50,000

Bonus Depreciation: \$0

1st Year Depreciation: \$0

Total First Year Deduction: \$50,000

Tax Savings (Based on 35% Tax Bracket): \$17,500

Equipment Cost after Tax Savings: \$32,500

To determine your own Section 179 Tax Savings visit our Calculator: beaconfunding.com/section179

Section 179 Deduction Examples:

Equipment Cost: \$75,000

Section 179 Deduction: \$75,000

Bonus Depreciation: \$0

1st Year Depreciation: \$0

Total First Year Deduction: \$75,000

Tax Savings (Based on 35% Tax Bracket): \$26,250

Equipment Cost after Tax Savings: \$48,750

*These examples present potential tax scenarios based on typical assumptions that may not apply to your business. The indicated tax treatment applies only to transactions deemed to reflect a purchase of equipment or a capitalized lease purchase transaction. Please consult your tax advisor to determine the tax ramifications of acquiring equipment or software for your business.

To determine your own Section 179 Tax Savings visit our Calculator: [beaconfunding.com/section179](https://www.beaconfunding.com/section179)



For 26 years, Beacon Funding Corporation has been providing equipment financing solutions to all types of organizations and businesses throughout a variety of industries in the United States and Canada. Beacon Funding focuses on being a specialist in the select markets it serves. As a result, Beacon differentiates itself by offering start-up and existing business clients a wider range of equipment leasing and financing options. For more information, please visit www.beaconfunding.com.

Sources:

- <http://www.section179.org/>
- <http://waysandmeans.house.gov/wp-content/uploads/2015/12/SECTION-BY-SECTION-SUMMARY-OF-THE-PROPOSED-PATH-ACT.pdf>
- <https://www.nolo.com/legal-encyclopedia/section-179-what-every-business-owner-needs-know.html>
- <https://www.beaconfunding.com/equipment-financing/how-it-works/section-179-tax-deduction>

A circular graphic with a white border and a dark blue background. The text "SECTION 179" is written in white, bold, sans-serif font. A small red star is positioned below the text, centered between two horizontal white lines.

**SECTION
179**

2016