

Lower the True Cost of Ownership on Your Business Equipment Purchase

Business Equipment - Section 179 Expensing Allowance - \$1,040,000 (Adjusted for inflation each year)

IRS Section 179 is a **permanent** tax law that encourages investment. It allows smaller businesses to immediately write off the full price of qualifying asset purchases (machinery, computers, furniture and other tangible goods) rather than depreciating them over several years. Under the IRS Section 179, a taxpayer may expense up to **\$1,040,000** of qualified equipment placed in service in 2020 (amounts will be indexed for inflation in future years). The rules are designed for small companies, so the \$1,040,000 deduction phases out when a business purchases more than \$2,590,000 in one year. (Companies cannot write off more than their taxable income). Section 179 applies to new and used equipment purchases, but must be "new to the business". The asset must be purchased, it cannot be used for property inherited, gifted or leased.

Bonus Depreciation - 100% through 2022

The Tax Cuts and Jobs Act enacted in 2018 increased the first-year bonus depreciation to 100% for qualified investments made after Sept. 27 2017 and before Jan 1, 2023. Bonus depreciation is available for all businesses, is not capped at a certain dollar level and is good for **new or used** property. The 100% immediate expensing of asset acquisitions will be permitted for tax years 2018 through 2022 before reducing to 80% in 2023, 60% in 2024, 40% in 2025 and 20% in 2026.

Benefits of Finance Agreements and Capital Leases

Maximize the tax benefit with a Group Financial Services finance agreement (conditional sales contract) or capital lease. Both allow a business to acquire equipment with a low monthly payment while taking advantage of the Section 179 Expensing allowance and Bonus Depreciation. Examples of capital leases include a \$1.00 buyout lease and a capitalized 10% purchase option lease

Example Calculations: The sample calculation shows how taking advantage of Section 179 can significantly lower the true cost of equipment ownership. For the specific impact to your company, please contact your tax advisor.

Equipment Cost	\$25,000	\$50,000	\$75,000	\$100,000	\$150,000	\$200,000	\$250,000	\$300,000	\$400,000	\$500,000	\$1,250,000
Section 179 Tax Allowance: (\$1,040,000 Max in 2020)	\$25,000	\$50,000	\$75,000	\$100,000	\$150,000	\$200,000	\$250,000	\$300,000	\$400,000	\$500,000	\$1,040,000
100% Bonus Depreciation (100% of remaining value after \$1,000,000 Benefit)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$210,000
Normal 1st Year Depreciation (Depreciation calculated at 5 years = 20%. Amount remaining after Bonus Depreciation & Section 179 Deduction x 20%)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total 1st Year Deduction	\$25,000	\$50,000	\$75,000	\$100,000	\$150,000	\$200,000	\$250,000	\$300,000	\$400,000	\$500,000	\$1,250,000
Tax Savings Assuming Rate of 32%	\$8,000	\$16,000	\$24,000	\$32,000	\$48,000	\$64,000	\$80,000	\$96,000	\$128,000	\$160,000	\$400,000
Equipment Cost After 1st Year Tax Savings	\$17,000	\$34,000	\$51,000	\$68,000	\$102,000	\$136,000	\$170,000	\$204,000	\$272,000	\$340,000	\$850,000

Further Detail

Often, the same asset will qualify for Section 179 Expensing and Bonus Depreciation. In this event, you decide what method to use or you may choose to combine methods. If you decide to claim both for the same asset, you must use Section 179 first, then Bonus Depreciation.

Interested in learning more? Contact Group Financial Services today for more information. We'll provide you with a free consultation and extend finance solutions so you can acquire the business equipment you need. Not all states follow federal law. Contact your tax advisor for further detail or visit www.irs.gov