



Understanding the Section 179 Program for 2024

The **Section 179 program** is a provision of the U.S. tax code that allows businesses to deduct the full purchase price of qualifying equipment and software purchased or leased during the tax year, rather than capitalizing the cost and depreciating it over time. This can provide significant tax relief for businesses that make large capital expenditures.

As of **2024**, here's an overview of the Section 179 program, including updated limits and details:

Key Features of Section 179 for 2024:

1. Deduction Limit:

- For **2024**, businesses can **deduct up to \$1,160,000** in the year of purchase for qualifying property.
- The **deduction limit** begins to phase out when a business purchases more than **\$2.89 million** in qualifying equipment (this is the "spending cap").
 - For example, if you spend \$3 million on qualifying assets, the amount you can deduct would be reduced, and the deduction would phase out completely once you hit \$4.05 million in purchases.

2. Bonus Depreciation:

- Businesses can also take **bonus depreciation** in addition to the Section 179 deduction. For **2024**, the **bonus depreciation rate is 80%** (down from 100% in previous years).
- Bonus depreciation allows businesses to deduct a percentage of the cost of qualifying assets in the year they are purchased, and it applies to new and used property (with certain restrictions).

3. Qualifying Property:

- **Section 179 applies to a wide range of property**, including:
 - **Tangible personal property:** Machinery, equipment, vehicles, and furniture.
 - **Off-the-shelf software:** Software purchased for business use.
 - **Qualified real property:** Improvements to nonresidential real property (such as roofing, HVAC, fire protection systems, and security systems).
- It does **not** apply to property held for investment, land, or property used predominantly for lodging, such as hotels or apartments.

4. **Vehicle Deductions:**

- The deduction for business vehicles has special rules. For instance:
 - **Passenger vehicles** used for business are subject to **limits** on the amount of depreciation that can be deducted.
 - Larger vehicles, such as **vans, trucks, and SUVs** that are over 6,000 pounds in gross vehicle weight, may qualify for a **full Section 179 deduction**.

5. **Leased Equipment:**

- If you **lease** equipment, you may still take advantage of Section 179 if the lease qualifies as a **capital lease** (essentially a lease where the lessee gets the equivalent of ownership rights).

6. **State Specifics:**

- Most states follow the federal rules for Section 179, but **a few states** have different limits or may not conform to the federal Section 179 deduction or bonus depreciation rules. It's important to check your state's tax code to ensure compliance.

Example:

If your business purchases \$500,000 worth of new machinery in 2024, under Section 179, you could deduct the full \$500,000 in the same tax year, assuming the total cost of all qualifying assets does not exceed the phase-out threshold (\$2.89 million).

How Section 179 Can Benefit Small and Medium-Sized Businesses:

- **Immediate Tax Relief:** If your business has the cash flow to purchase equipment or other qualifying property, Section 179 allows you to **deduct the entire cost upfront**, rather than waiting years to depreciate it.
- **Improves Cash Flow:** By reducing your taxable income, you can reduce your **tax liability** and increase your business's cash flow, which can be reinvested back into the business.

What Businesses Should Know:

- **Plan Purchases Wisely:** While the Section 179 deduction is great for accelerating tax deductions, businesses should plan their purchases carefully. Buying equipment you don't immediately need just to get the deduction might not be the best strategy for your business.
- **Section 179 vs. Bonus Depreciation:** Depending on your needs and the type of property purchased, it might make sense to use **bonus depreciation** in conjunction with Section

179. Remember that bonus depreciation is not subject to the same spending cap as Section 179, but the bonus depreciation rate is gradually decreasing.

Summary of Section 179 for 2024:

- **Deduction Limit:** \$1,160,000
- **Phase-out Threshold:** \$2.89 million in total purchases.
- **Bonus Depreciation:** 80% in 2024.
- **Qualifying Property:** Includes machinery, equipment, software, and certain property improvements.
- **Vehicles:** Special limits for passenger cars but full deduction for heavy vehicles over 6,000 pounds.

Final Thoughts:

If your business is considering making significant capital investments this year, taking advantage of Section 179 and bonus depreciation can provide substantial immediate tax savings. However, it's a good idea to consult with a tax advisor or accountant to ensure you're optimizing the use of these deductions based on your specific business needs and financial situation.