

DEDUCTIONS FOR BUSINESS EQUIPMENT PURCHASES

If you are a business owner, the Internal Revenue Code (Code) usually allows you to take a federal income tax deduction for property you purchase for use in your business. Tax deductions are beneficial because they reduce the amount of income tax you must pay. The size of the deduction will usually be based on the cost and type of property. Ordinarily, the more you spend, the greater your deduction.

The general rule requires you to take the deductions through *depreciation*. Depreciation means that each year, you can only deduct part of the cost of property. Usually this is no more than one-third of the cost each year. For example, if you purchase a \$3,000 photocopier for your business, the general rule will allow you to deduct \$1,000 per year for three years.

Section 179 of the Code contains an exception to the general depreciation rule. Under certain limitations, discussed below, you may be able to deduct up to the full cost of property you purchase for your business in one year rather than in three or more years. This increased deduction can save you a lot of income taxes.

Although Section 179 has been around for awhile, Congress recently liberalized it by increasing the amount of the deduction. For example, in 1992, the deduction was \$10,000 per year. Starting in 1993, the deduction jumped to \$17,500. In 1999, the deduction is \$19,000. The deduction will increase to \$20,000 in 2000, \$24,000 between 2001-2002, and \$25,000 in 2003 and thereafter (unless Congress tinkers with it again). In other words, provided that you otherwise meet the requirements of Section 179, during 1999, you can spend \$19,000 on property for your business and receive a \$19,000 federal income tax deduction.

The Section 179 deduction is limited in two ways. Because Congress geared the Section 179 for small businesses, the deduction is reduced dollar-for-dollar to the extent that you spend more than \$200,000 on business property during any year. For example, if you spend \$210,000 on business property during 1999, your Section 179 deduction will be reduced by \$10,000, and so would be \$9,000, not \$19,000.

The Section 179 deduction is also limited by your income. You cannot take the deduction to the extent that it exceeds your taxable business income. For example, if in 1999, you spend \$15,000 on business property, but your taxable business income is only \$10,000, your Section 179 deduction will be limited to \$10,000.

If your Section 179 deduction is reduced because your expenditures for business property exceed either \$200,000 or your taxable business income, Section 179 allows you to take the unused deduction in one or more future years. However, to do so, you will have to satisfy two requirements.

First, you will have to spend less than the maximum amount of the Section 179 deduction that is available during that year. Let's explain this by returning to our above example. Assume that you spend \$210,000 on property during 1999. Also assume that you spend \$10,000 or less during 2000. As discussed above, if you spend more than \$200,000 during 1999, your deduction will be reduced from \$19,000 to \$9,000, leaving a \$10,000 deduction unused, but available for future years. As was also mentioned above, in 2000, the maximum Section 179 deduction will be \$20,000. You will be able to take the unused \$10,000 deduction in 2000 to the extent that you spend less than \$20,000 during that year. If you spend \$10,000 or less during 2000, you will be able to take the entire unused \$10,000 deduction. However, if, for example, you spend \$15,000 during 2000, you will be able to take only \$5,000 of the unused deduction in 2000, carrying the remaining \$5,000 to future years, and so on.

Second, even if you spend less than the maximum amount of the Section 179 deduction, you can only take the unused deduction to the extent that the amount of the unused deduction does not exceed your taxable business income. Let's return to our above example, in which you had a \$10,000 unused deduction from 1999. Assume that in 2000 your taxable business income is \$5,000. In that case, you will only be able to use \$5,000 of the unused \$10,000 deduction in 2000, and you will have to carry the remaining \$5,000 to one or more future years. If, however, your taxable business income in 2000 is \$10,000 or more, you will be able to take the entire \$10,000 deduction in 2000.

The Section 179 deduction can be extremely valuable. However, you should carefully plan the timing and amounts of your purchases of business property so that you can utilize the deduction as fully as possible.