



SECTION 179 SMALL BUSINESS EXPENSING AND BONUS DEPRECIATION

Issue

Small business expensing gives auto and truck dealers and other business owners the ability to immediately deduct the cost of qualified investments in the year purchased, rather than being forced to depreciate the investment cost over time. Likewise, bonus depreciation which allows businesses to immediately deduct an additional 50 percent of the cost of new equipment in the first year, encourages dealerships to reinvest in their businesses. NADA/ATD supported the extension of both provisions to fuel expansion, growth, and jobs in local communities across the country.

Background

Section 179 small business expensing and bonus depreciation affect the investment decisions of many dealerships and small businesses, especially those purchasing autos and trucks for business use. The uncertainty of not knowing if small business expensing or bonus depreciation will be extended or for what period of time causes investment decisions to be postponed or eliminated entirely.

Section 179 Expensing - In December 2014, Congress retroactively increased from \$25,000 to \$500,000 the annual cost of new or used property eligible for expensing under Section 179 for 2014. The deduction phased out for investments exceeding \$2 million. This provision reverted to the previous deduction limit of \$25,000 on January 1, 2015.

Bonus Depreciation – This provision was first enacted in 2002 to stimulate the economy, and has been increased, allowed to expire, and extended several times. The extension in 2014 allowed businesses to deduct an additional 50 percent of the cost of new equipment in 2014. The law also included a provision under Section 280F that would index for inflation the additional \$8,000 increased depreciation in the first year allowed for certain qualified “luxury autos.” This provision also expired at the end of 2014.

Key Points

- Small business expensing gives business owners the ability to recover the cost of investing in their businesses faster and makes these investments financially attractive.
- Bonus depreciation provides an incentive for small business owners to reinvest in their businesses with new, more efficient equipment which fuels expansion, growth and jobs.
- Making Section 179 expensing levels permanent and extending bonus depreciation provides certainty about the tax code that helps many auto and truck dealerships and small businesses make investment plans and decisions that benefit the economy.

Status

On December 18, 2015, President Obama signed the “Protecting Americans from Tax Hikes Act of 2015” (PATH Act) into law which permanently extends Section 179 to allow businesses to expense up to \$500,000 in business property beginning in 2015. The law also extended bonus depreciation for property acquired and placed in service during 2015 through 2019. The bonus depreciation percentage is 50 percent for property placed in service during 2015, 2016, and 2017, 40 percent in 2018, 30 percent in 2019, and phases out entirely in 2020. NADA/ATD was actively involved in the passage of this legislation.

March 8, 2016