

Abstract: Section 179 of the tax code provides opportunities for substantial first-year depreciation deductions when a business places newly acquired qualifying assets into service. The Sec. 179 deduction amounts change annually due to inflation adjustments and certain limitations apply. Additionally, it's important to consider any available first-year bonus depreciation deductions when making decisions. Here's what business owners need to know to optimize these tax benefits.

Updated guide to robust depreciation write-offs for your business

When your business places newly acquired qualifying assets into service, tax-saving benefits are generally available. Under Section 179 of the tax code, businesses can take substantial depreciation deductions, with limits based on their taxable income. The deduction amounts for Sec. 179 are adjusted annually for inflation, including the maximum deduction and phaseout threshold.

Another potential write-off is for first-year bonus depreciation. Like Sec. 179, this benefit also changes annually and is scheduled to disappear after 2026.

Basics you need to know

Most tangible depreciable assets, such as equipment, furniture and fixtures, computer hardware, and some software, qualify for Sec. 179 deductions in the year you purchase and place them in service. Vehicles also qualify, subject to limitations.

For tax years beginning in 2025, the Sec. 179 deduction maxes out at \$1.25 million and begins to phase out when total qualifying assets exceed \$3.13 million (up from \$1.22 million and \$3.05 million, respectively, in 2024).

For qualifying assets placed in service in 2025, the first-year bonus depreciation drops to 40% (down from 60% in 2024). In 2026, this figure drops to 20% and is scheduled to be eliminated in 2027. However, with Republicans in control in Washington, there's a chance that it could be restored to 100% before then.

How income affects your deduction

Under tax law, a Sec. 179 deduction can't result in an overall business taxable loss. So, the deduction is limited to your net aggregate taxable income from all your businesses. This includes wages and other compensation, your net business income, net proceeds from selling business assets, and possibly net rental income.

If the business income limitation reduces your Sec. 179 deduction, you can carry forward the disallowed amount or use first-year bonus depreciation. Unlike Sec. 179, bonus depreciation

isn't subject to dollar limits or phaseouts. (See "Sec. 179, first-year bonus depreciation or both?" for an example.)

Straddling two years

Depending on the details, you may have a robust depreciation deduction for 2024 and possibly depreciation to carry forward in 2025. Maximizing the benefits of both depreciation methods can be complex and may adversely affect your company's eligibility for certain other deductions. So, don't go it alone. Contact your tax advisor for help devising the optimal tax strategy for your business and staying atop the latest tax law developments.

Sidebar:

Sec. 179, first-year bonus depreciation or both?

You may still be undecided about the best tax-saving strategy for assets that you purchased and placed in service in 2024. Here's an example that combines two methods.

In 2024, Jim's calendar-tax-year C corporation purchased and placed \$500,000 of assets in service that qualify for the Sec. 179 deduction and first-year bonus depreciation. However, due to the taxable income limitation, his company's Sec. 179 deduction is restricted to only \$300,000, which can be claimed on the corporation's federal income tax return.

The company can deduct 60% of the remaining \$200,000 using first-year bonus depreciation (\$500,000 minus \$300,000). So, the write-offs for the year include 1) a Sec. 179 deduction of \$300,000 and 2) \$120,000 of bonus depreciation (60% of \$200,000). Thus, the company achieves \$420,000 in write-offs on its 2024 tax return, leaving only \$80,000 to depreciate in future tax years. (Note: If the business income limitation didn't apply, Jim's business could have written off the entire amount under the Sec. 179 deduction rules because his company's asset additions are below the phaseout threshold.)