

THE 2016 GUIDE TO SECTION 179

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A Division of CIT Bank, N.A.

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As the end of the year draws near, it's important to start planning for your financial future in 2017. A great way to ensure you make the most of your money is to take advantage of Section 179, a tax break that could make a difference to your numbers in the new year.



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WHAT IS SECTION 179?

Section 179 is a tax deduction that enables businesses to depreciate assets as an expense in the first year, or the year they purchased the asset. All assets must be put to use by December 31 of the tax year.

Asset Depreciation

Let's say you purchase a backhoe for \$200,000. With that \$200,000 backhoe, what typically happens is that it depreciates, or loses value, over its life. A piece of equipment like this backhoe usually has a five year lifespan. What you end up doing normally is dividing the cost of that asset by its number of expected years.

Asset Depreciation with Section 179

You can use Section 179 to capitalize your assets and put them on the balance sheet, meaning they don't become an expense for the company. Depreciating assets all in the first year helps to reduce your overall profit, which is the figure you ultimately end up paying taxes on. Long story short, you pay less in taxes.





WHEN TO TAKE THE SECTION 179 DEDUCTION

To take advantage of the Section 179 tax deduction, simply fill out Part 1 of IRS form 4562 and attach it to your tax return just like any other additional form. Don't be discouraged by the prospect of more paperwork; it's a simple form, and if you need any further help or explanation, your tax consultant can help. You elect to take the Section 179 tax deduction when you file your annual tax return, and it will apply whether you're filing on time or you receive an extension.

WHAT ARE THE MAIN RESTRICTIONS FOR SECTION 179?

There are several business assets that don't qualify for Section 179, and we outline those better in a table provided below. Another caveat of Section 179 is that the equipment must be **new to you**; this means that if you already have equipment purchased in previous years, you cannot utilize Section 179. However, you can utilize it if you buy used equipment that is new to your business.

Section 179 Eligible Property	
Automobiles	Office Furniture
Computers	Signs (if movable)
Machinery & Equipment	Tractors
Office Equipment	Trucks

Section 179 Qualifying Conditions	
Tangible property or hard assets (such as machines, equipment, furniture)	Certain other tangible property used for specified purposes
Single-purpose argricultural or horticultural structures	Must be acquired for business use
Certain storage facilities	Off-the-shelf computer software placed in service during tax year

WHAT ARE THE MAIN RESTRICTIONS FOR SECTION 179?

Property Not Eligible	
Billboards (if not movable)	Land
Buildings	Landscaping
Docks	Swimming Pools
Fences	Trailers (non-mobile)

Section 179 Non-Qualifying Conditions
Property not used in trade or business
Buildings & structural components (like AC or heating)
Property used 50% or less in a trade or business
Property acquired by gift, inheritance, or trade
Property purchased from certain related parties
Property outside of the United States
Property used by tax-exempt organizations, governmental units
Property used by foreign persons or entities
Property held by an estate or trust
Soft assets



WHAT ARE THE MONETARY LIMITS OF SECTION 179?

As of January 1, 2016, businesses that purchase \$2 million or less in equipment can deduct up to \$500,000 of that expense. This is in effect until further notice, and will likely be the standard for the next couple of years.



ARE YOU A BIG SPENDER?

Once your Section 179 limit has been reached, Bonus Depreciation kicks in. **Bonus Depreciation is when businesses can depreciate 50% of the cost of equipment put in service between 2015 and 2017.** If you've purchased over \$2 million in new to you equipment, you can depreciate 50% of the asset instead of the full 100%. It will phase down to 40% in 2018 and 30% in 2019, and has been extended only through 2019.



HOW TO CALCULATE SECTION 179

In the first example below, you can see a detailed overview of your savings if you take advantage of the Section 179 tax break. If you purchase \$250,000 in equipment, you can earn \$87,500 in savings, decreasing the total amount you spend to \$162,500. The second example shows the detailed overview of the bonus savings should you spend over \$2 million on equipment and be eligible for bonus depreciation.

Section 179 Example	
Cost of Equipment	\$250,000.00
Section 179 Deduction	\$250,000.00
Total First Year Deduction	\$250,000.00
Cost of Savings on Equipment Purchase	\$87,500.00
Lowered Cost of Equipment After Tax Savings	\$162,500.00

Bonus Depreciation Example	
Cost of Equipment	\$2,500,000.00
Section 179 Deduction	\$500,000.00
50% Bonus Depreciation Deduction	\$1,000,000.00
Regular First Year Depreciation	\$200,000.00
Total First Year Deduction	\$1,700,000.00
Cost of Savings on Equipment Purchase	\$595,000.00
Lowered Cost of Equipment After Tax Savings	\$1,905,000.00



ABOUT DIRECT CAPITAL

Direct Capital, located in the heart of Portsmouth, NH, has been helping small businesses across the country access the capital they need for more than 20 years. Since being acquired by CIT in August of 2014, Direct Capital has been able to further maximize its reach in the small business market and is constantly looking for ways to innovate and improve the customer experience.

We're dedicated to quickly providing our customers with what they need, when they need it.

- The financial products that businesses need
- Offered at the most competitive prices
- Delivered with extraordinary speed and automation
- Wrapped in a remarkable customer experience

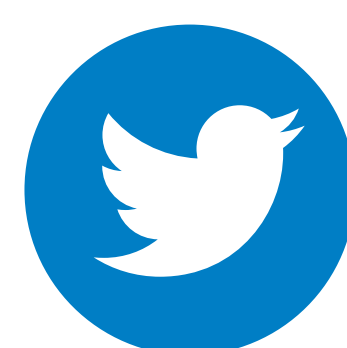
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