NEW DEPRECIATION LIMTS ARE WORTHY OF A REVIEW

By Rodney J. Couts, Enrolled Agent

The ability to expense assets on an accelerated basis through Bonus Depreciation and the Section 179 deduction has made purchasing equipment an attractive alternative for businesses over the past several years. But as 2013 came to an end, so too did the ability to use the Bonus Depreciation expensing option. Additionally, the Section 179 expensing limits decreased to levels not seen in more than a decade, and Congress doesn't appear interested in making changes any time soon, if at all.

As a result, the Section 179 expensing deduction for 2014 is limited to an annual maximum of $25,000. More significantly, the Section 179 deduction limit is reduced dollar-for-dollar once the amount of qualifying property placed in service during the year exceeds $200,000. Accordingly, the 179 deduction is completely eliminated once the amount of qualifying property purchased during the year exceeds $225,000.

For example, assume that a company places three trucks, each with a GVWR exceeding 6,000 pounds and costing $25,000 apiece, into service in 2014 for a total cost of $75,000. If this is the only qualifying property purchased during the year, then a $25,000 Section 179 deduction would be allowed on the tax return for 2014. (The same math holds true for a single vehicle costing, say, $60,000, such as a delivery truck.) If the company purchases equipment totaling $210,000 during 2014, then the maximum Section 179 deduction would be only $15,000 ($210,000 - $200,000 = $10,000 reduction, $25,000 limit – $10,000 reduction = $15,000 allowable Section 179 deduction). Keep in mind that once the amount of qualifying equipment purchased exceeds $225,000, the Section 179 deduction is eliminated.

With these expensing limits in place, leasing becomes a much more attractive option for acquiring business property because you can simply expense the monthly payments to the extent the vehicles are used for business, much like expensing your office lease payments.

One other consideration to the Section 179 deduction is that it cannot be used to create a tax loss for a business. Any loss not utilized in the current year may be carried over to the next year, but may be used only when there is a profit. Deducting lease payments does not have a similar limitation. The amount of payments may be expensed in full regardless of the profitability on the tax return, subject to the amount of business use discussed previously.

How you finance your business equipment and trucks requires careful planning and the advice of your professional tax advisor. But with a potentially lower initial cash outlay and an unrestricted ability to deduct lease payments, leasing may become the more favorable choice.

Rodney J. Couts is an Enrolled Agent with a tax practice located in Carlsbad, CA. He was formerly the executive director of the National Vehicle Leasing Association and has written extensively on the subject of leasing.

1925 Palomar Oaks Way, Suite 107
Carlsbad, CA 92008-6526 | rod@seasideresources.com
seasideresources.com | Office 760.434.2555
Fax 760.454.0311 | **Rodney J. Couts, Enrolled Agent**
Admitted to practice before the IRS