

Thinking about buying business assets -- Here's how to maximize depreciation tax deductions



In order to take advantage of two important depreciation tax breaks for business assets, you must place the assets in service by the end of the tax year. So you still have time to act for 2016.

Section 179 deduction

The Sec. 179 deduction is valuable because it allows businesses to deduct as depreciation up to 100% of the cost of qualifying assets in year 1 instead of depreciating the cost over a number of years. Sec. 179 can be used for fixed assets, such as equipment, software and leasehold improvements. Beginning in 2016, air conditioning and heating units were added to the list.

The maximum Sec. 179 deduction for 2016 is \$500,000. The deduction begins to phase out dollar-for-dollar for 2016 when total asset acquisitions for the tax year exceed \$2,000,000.

Real property improvements used to be ineligible. However, an exception that began in 2010 was made permanent for tax years beginning in 2016. Under the exception, you can claim a Sec. 179 deduction of up to \$500,000 for certain qualified real property improvement costs.

Note: You can use Sec. 179 to buy an eligible heavy SUV for business use, but the rules are different from buying other assets. Heavy SUVs are subject to a \$25,000 deduction limitation.

First-year bonus depreciation

For qualified new assets (including software) that your business places in service in 2016, you can claim 50% first-year bonus depreciation. (Used assets don't qualify.) This break is available when buying computer systems, software, machinery, equipment, and office furniture.

Additionally, 50% bonus depreciation can be claimed for qualified improvement property, which means any eligible improvement to the interior of a nonresidential building if the improvement is made after the date the building was first placed in service. However, certain improvements aren't eligible, such as enlarging a building and installing an elevator or escalator.

Contemplate what your business needs now

If you've been thinking about buying business assets, consider doing it before year end.

Please contact Ceschini, CPAs at (631) 474-9400 for more information about this topic and other tax and business developments – such as new IRS regulations and court decisions.