

Accelerated Depreciation

Traditional Depreciation

- Equipment is depreciated over the ‘useful life’ of the equipment.
- For example, gas pumps may be depreciated over 7 years.
 - A \$14,000 gas pump would generate \$2000 of depreciation for 7 years
- Depreciation is deducted from profits, creating a tax savings

Accelerated Depreciation (Bonus Depreciation, Section 179)

- Tax incentive designed to encourage businesses to invest in capital equipment
- Allows depreciation to be taken faster than traditional depreciation
 - A \$14,000 gas pump would generate \$14,000 of depreciation in the first year
- This creates cash flow benefits from reduced taxes in year of purchase

Purchaser may choose either depreciation method



What's Changed – 2017 Tax Reform

	Section 179		Bonus Depreciation	
	Old	2017 Reform	Old	2017 Reform
Max. Amount	\$500K	\$1 Million	\$2 Million	Uncapped
	100%	100%	50%	100%
New Equipment	Yes	Yes	Yes	Yes
Used Equipment	Yes	Yes	No	Yes
Permanent	Yes	Yes	No	20% Phase Out 2023-2026
Inflation Adjusted	No	Yes	No	No
Additional Coverage		Property Improvements- HVAC, Roofing,		



Available Tax Incentives

Cost of Equipment	\$500,000	\$500,000
1st Year Tax Deductions	Traditional	Section 179 / Bonus Depreciation
- 100% of first \$1,000,000		\$500,000
- Normal 1 st Yr Depreciation**	<u>\$71,429</u>	<u>\$0</u>
<u><i>TOTAL Year 1 Deductions</i></u>	\$71,429	\$500,000
Marginal Tax Rate of 25% (Assumed)	<u>\$17,857</u>	<u>\$125,000</u>
NET FIRST YEAR COST AFTER TAX:	\$482,143	\$375,000

