



# Your 2020 guide to Section 179.



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Start planning today for your business's financial future.

We get it. Things are different this year. Many businesses like yours have had their share of challenges, and planning ahead for tomorrow's financial success is more important than ever. Making the most of your money starts with understanding the tools available to you, like the Section 179 tax deduction. Let's explore how the deduction works so you're prepared come tax time.

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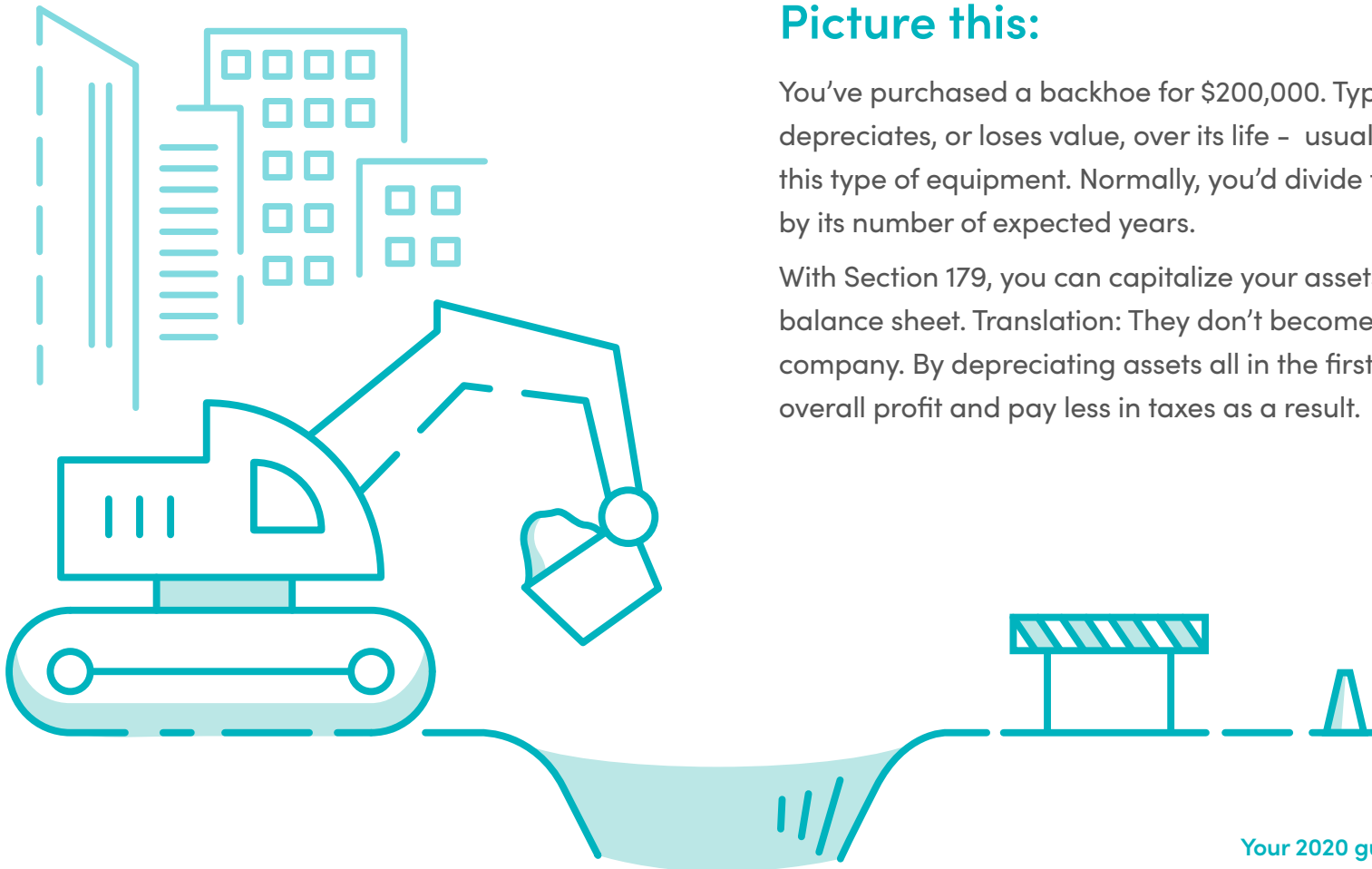
# What is Section 179?

Section 179 is a tax deduction that businesses can use to deduct the cost of certain assets as an expense during the year in which they were purchased. All assets must be placed in service by December 31 of the tax year.

## Picture this:

You've purchased a backhoe for \$200,000. Typically that backhoe depreciates, or loses value, over its life - usually about five years for this type of equipment. Normally, you'd divide the cost of the backhoe by its number of expected years.

With Section 179, you can capitalize your assets and put them on the balance sheet. Translation: They don't become an expense for your company. By depreciating assets all in the first year, you reduce your overall profit and pay less in taxes as a result.



# Taking the deduction



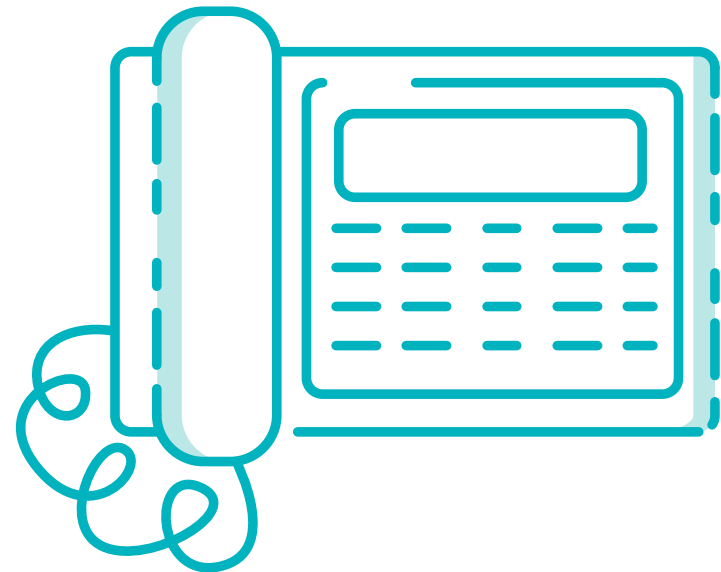
It's simple to take advantage of the Section 179 tax deduction. There are just two steps:

1. Fill out Part 1 of IRS form 4562
2. Attach it to your tax return, just like any other additional form

Don't let the prospect of more paperwork make you hesitant. If you need help with the form, your tax consultant can help.

## When to take the deduction

You elect to take the Section 179 tax deduction when you file your annual tax return. Running late? Not to worry. The deduction applies whether you're filing on time or with an extension.



# Understanding the restrictions

## The “cans” of Section 179

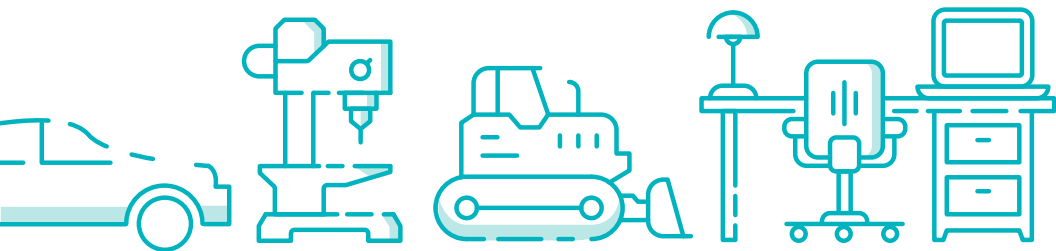
Before you make any purchasing decisions, you should know that Section 179-eligible equipment must be “new to you” – so you can’t utilize the deduction for equipment purchased in previous years. But if you buy used equipment that is new to your business, it is eligible. We’ve listed out some other conditions for Section 179 eligibility below.

### Eligible property for Section 179

- Automobiles
- Office furniture
- Office equipment
- Computers
- Signs (if movable)
- Machinery & equipment
- Tractors
- Trucks

### Qualifying conditions

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



# Understanding the restrictions

## The “cannots” of Section 179

Take note that several business assets do not qualify for Section 179. We’ve outlined those assets and conditions below.

### Ineligible property

- Billboards (if not movable)
- Buildings
- Docks
- Fences
- Land
- Landscaping
- Swimming pools
- Trailers (non-mobile)

### Disqualifying conditions

- Soft assets
- Property not used in trade or business (or used in business 50% or less)
- 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 or governmental units
- Property used by foreign persons or entities
- Property held by an estate or trust



# The monetary limits

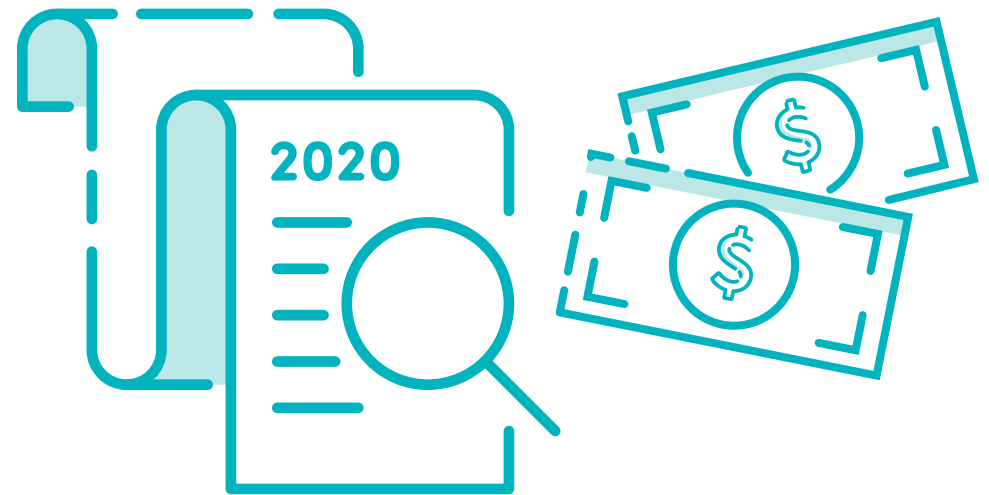
From the tax year 2020 onward, businesses that purchase \$2,590,000 or less in eligible equipment can deduct up to \$1,040,000 of that expense. We expect this to be the standard for the next few years.

## Pushing the limit?

Once your Section 179 limit has been reached, bonus depreciation kicks in. With bonus depreciation, you can deduct a substantial portion of an asset's cost in the first year instead of depreciating the cost over many years. If you've purchased over \$2,590,000 in new-to-you equipment, you can depreciate 100% of the asset in the first year. These rules are in effect until January 1, 2023.

**Starting in 2023**, the first-year bonus depreciation deduction amount decreases as follows:

| Percentage | Year property is placed in service |
|------------|------------------------------------|
| 80%        | 2023                               |
| 60%        | 2024                               |
| 40%        | 2025                               |
| 20%        | 2026                               |



# Calculating Section 179

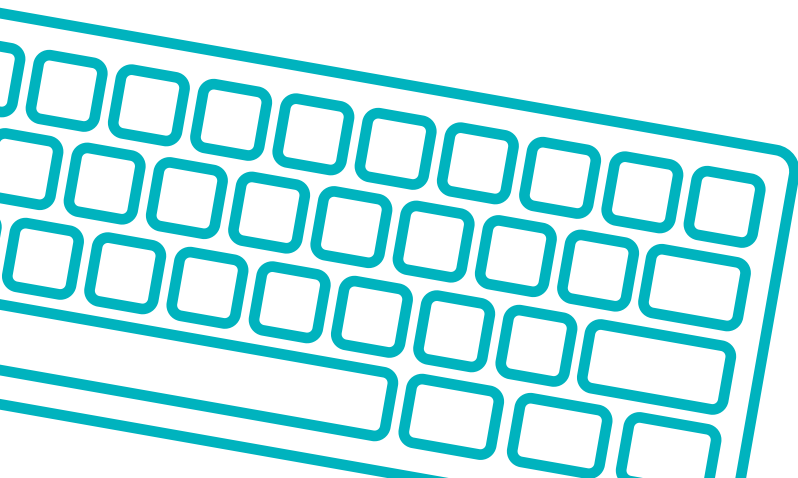
OK, now you know the qualifications. But what about the calculations? We've provided an example below that shows what you could save with the Section 179 tax break.

In this example, if you purchase \$250,000 in equipment, you can earn \$52,500 in savings - decreasing the total amount you spend to \$197,500.

| Section 179 example                         |           |
|---|-----------|
| Cost of equipment                           | \$250,000 |
| Section 179 deduction                       | \$250,000 |
| Total first year deduction                  | \$250,000 |
| Cost of savings on equipment purchase       | \$52,500  |
| Lowered cost of equipment after tax savings | \$197,500 |

Should you spend over \$2,590,000 on equipment and be eligible for bonus depreciation, the below example is how you would calculate your savings.

| Bonus depreciation example                  |             |
|---|-------------|
| Cost of equipment                           | \$3,000,000 |
| Section 179 deduction                       | \$630,000   |
| 100% bonus depreciation deduction           | \$2,370,000 |
| Regular first year depreciation             | \$0         |
| Total first year deduction                  | \$3,000,000 |
| Cost of savings on equipment purchase       | \$630,000   |
| Lowered cost of equipment after tax savings | \$2,370,000 |





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