

## **2023 BUSINESS TAX INCENTIVES**

The Section 179 Federal Income Tax Deduction allows companies to deduct the first \$1,160,000 of equipment (Section 179 Property) purchased in 2023 from their taxable income. In addition, 80% Bonus Depreciation is also available. The following outline highlights the major points of each of these tax breaks:

### **SECTION 179 - \$1,160,000 DEDUCTION:**

- In 2023, a qualifying company can deduct the first \$1,160,000 in equipment (Section 179 Property) expenditures from their taxable income if the company's equipment purchases don't exceed \$2,890,000.
- For 2023, if the total cost of qualifying equipment exceeds \$2,890,000, the maximum annual expensing amount of \$1,160,000 is reduced on a dollar-for-dollar basis by the amount that the qualifying property exceeds \$2,890,000. For example, if a company purchases \$3,090,000 worth of qualifying equipment, its annual expensing allowance decreases to \$960,000 (i.e.,  $\$3,090,000 - \$2,890,000 = \$200,000$  over the limit;  $\$1,160,000 - \$200,000 = \$960,000$ ).
- Because of the phase-out nature of the law, a qualifying company that purchases (or leases with a \$1 or a \$101 buyout) over \$4,050,000 of qualifying equipment in 2023 is not eligible for any expensing allowance. However, if purchases over \$2,890,000 are made with a qualifying operating (true) lease, companies may preserve the full Section 179 expensing allowance of \$1,160,000 for the year.
- The Section 179 deduction *cannot* cause or increase a loss.
- While the benefits of the Section 179 write-off can't be carried back, any unused portion of one year's write-off can be carried forward to the next year.
- *New and used* equipment *are* eligible for this benefit.

### **80% BONUS DEPRECIATION PROVISIONS:**

- In addition to the Section 179 deduction, an additional first year depreciation deduction equal to 80% of the adjusted basis of the qualified property can be claimed for equipment *placed in service between January 1, 2023 and December 31, 2023*.
- The 80% Bonus Depreciation *can* create or increase a loss.
- In addition to reducing or eliminating taxable income in the year a machine is purchased, if the 80% Bonus Depreciation creates a net operating loss, the net operating loss can be carried forward to help reduce or eliminate taxable income in future years.
- *New and used* equipment *are* eligible for this benefit.
- There is depreciation recapture on the disposition of property for which bonus depreciation is claimed (i.e., a gain on the sale of property for which bonus depreciation was claimed is treated as ordinary income (not capital gain) to the extent of the deduction).

**EXAMPLE:**

The method to determine the total first year benefit of these tax breaks and the lowered cost of equipment is outlined in the samples below:

**Example #1**

|   |                    |
|---|--------------------|
| Equipment Cost:   | \$2,200,000        |
| Section 179 Deduction:                                    | <u>\$1,160,000</u> |
| Adjusted Basis of Qualified Property:                     | \$1,040,000        |
| Bonus Depreciation Deduction (80% in 2023):               | \$ 832,000         |
| Normal First Year Depreciation Deduction:                 | \$ -0-             |
| <b>Total First Year Deduction:</b>                        | <b>\$1,992,000</b> |
| Cash Savings on your Purchase (assuming 21% tax bracket): | \$ 418,320         |
| <b>Lowered Cost of Equipment (after Tax Savings):</b>     | <b>\$1,781,680</b> |

**Example #2**

|   |                  |
|---|------------------|
| Equipment Cost:   | \$500,000        |
| Section 179 Deduction:                                    | <u>\$500,000</u> |
| Adjusted Basis of Qualified Property:                     | \$ -0-           |
| Bonus Depreciation Deduction (80% in 2023):               | \$ -0-           |
| Normal First Year Depreciation Deduction:                 | \$ -0-           |
| <b>Total First Year Deduction:</b>                        | <b>\$500,000</b> |
| Cash Savings on your Purchase (assuming 21% tax bracket): | \$105,000        |
| <b>Lowered Cost of Equipment (after Tax Savings):</b>     | <b>\$395,000</b> |

*Tax laws are subject to change at any time. This information is for general guidance and is not intended as specific legal, tax or accounting advice. These calculations are only estimates. Always contact your accountant or financial advisor to determine eligibility for and the exact tax implications of the above-referenced information.*