The 'Tax Relief Act of 2010' & the 'Jobs Act of 2010' Affected Section 179 in a Positive Way for Tax Year 2012.

Below are the highlights for the 2012 tax year:

2012 Deduction Limit = $139,000. Section 179 Deduction Limit, after adjustment for inflation, has increased to $139,000 (maximum allowance was only $25,000 prior to the new legislation).

2012 Limit on Capital Purchases = $560,000. Section 179 Threshold for total of equipment & software that can be purchased has increased to $560,000 (threshold was only $200,000 prior to the new legislation). Section 179 Deduction is available for most new and used capital equipment, as well as certain software.

2012 Bonus Depreciation = 50%. The new law allows 50% "Bonus Depreciation" on qualified assets placed in service during 2012. Bonus Depreciation can be taken on new equipment only (no used equipment or software).

When applying these provisions, Section 179 is generally taken first, followed by Bonus Depreciation, unless the business has no taxable profit in 2012.

Limits of Section 179 - Section 179 does have limits. There are caps to the total amount written off ($139,000 in 2012), and limits to the total amount of the equipment purchased ($560,000 in 2012). The deduction begins to phase out, dollar-for-dollar, after $560,000 is spent by a given business, so this makes it a true small and medium-sized business deduction.

After passage of the 'Tax Relief Act of 2010', large businesses that exceed the threshold of $560,000 in capital expenditure can take a Bonus Depreciation of 50% on the amount that exceeds the above limit.

Who Qualifies for Section 179?

All businesses that purchase, finance, and/or lease less than $560,000 in new or used business equipment during tax year 2012 should qualify for the Section 179 Deduction. If a business is unprofitable in 2012 and has no taxable income to use the deduction, that business can elect to use the 50% Bonus Depreciation and carry-forward to a year when the business is profitable.

Most tangible goods, including **off the shelf software** and **business-use vehicles** (restrictions apply), qualify for the Section 179 Deduction. The equipment and/or software purchased or financed must be placed into service between January 1, 2012 and December 31, 2012.

What's the Difference Between Section 179 and Bonus Depreciation?

The most important difference is that both new and used equipment qualify for the Section 179 Deduction (as long as the used equipment is "new to you"), while Bonus Depreciation covers new equipment only. Bonus Depreciation is useful to very large businesses spending more than $560,000 on new capital equipment in 2012. Also, businesses with a net loss in 2012 qualify to deduct some of the cost of new equipment and carry-forward the loss.

What is Section 179?

Essentially, Section 179 of the IRS Tax Code allows businesses to deduct the full purchase price of qualifying equipment and/or software purchased or financed during the tax year. This means that if you buy (or lease) a piece of qualifying equipment, you can deduct the FULL PURCHASE PRICE, up to the limits describe to the right, from your gross income.

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