ISSUE BRIEF

NSBA
National Small Business Association®

Section 179 Expensing

NSBA supports Section 179 expensing as it helps improve cash-flow and investment

Problem:

Section 179 of the tax code allows small businesses to immediately deduct up to a certain amount annually in business expenses (machinery, equipment, etc.). Since Section 179 was first implemented in 1958, the maximum deduction amount has been changed many times during this extension process—causing uncertainly and unpredictability for small businesses.

- The Section 179 limit has varied over the years and had reverted to its historic low of $25,000 on Jan. 1, 2015.
- However, the Protecting Americans from Tax Hikes Act of 2015 (PATH Act) was signed into law on Dec. 18, 2015, and permanently set the Section 179 annual limit at $500,000, made retroactive to Jan. 1, 2015.
- Under current law, businesses exceeding a total of $2 million of purchases in qualifying equipment have the Section 179 deduction phase-out dollar-for-dollar and completely eliminated above $2.5 million.
- Additionally, beginning in 2016, the Section 179 cap was indexed to inflation in $10,000 increments for all future years.
- More than one in three NSBA members takes advantage of this break as it helps alleviate two top concerns for small business owners: reducing tax complexity and improving cash flow.
- Unlike assets that are acquired for the production of income (such as investment property), Section 179 of the tax code gives an owner the option to deduct the costs of assets acquired for business use as expenses in the year they purchased the assets, instead of requiring them to be capitalized and depreciated.
- Expensing allows a small business to deduct up front rather than depreciate the cost of equipment such as computers, vehicles, machines in manufacturing, office furniture and sheds—substantially reducing the tax bias against investment by small firms.

Solution:

- NSBA supports maintaining the current expensing provisions that allows capital investments of up to $500,000 for certain property to be taken as an expense deduction and ensuring the deduction can be applied to new or used equipment.
- Keeping the limit amount or even raising it lowers the cost of capital substantially and aids small business cash flow, which further helps reverse the tax code's harmful treatment of investment and encourages economic growth.
- NSBA supports the permanency provision and the inflation index of the limit as it removes uncertainty and make it easier for small businesses to plan their investments.

Learn More:

Download NSBA's 2015 Taxation Survey
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