

# THINKING ABOUT MATERIAL HANDLING EQUIPMENT PURCHASES IN 2018?

## TAX CUTS AND JOBS ACT

The federal government has changed and extended tax incentives to help you save money on your 2018 tax bill and free up cash now!

## BONUS DEPRECIATION AND SEC. 179 CAN MEAN BIG SAVINGS FOR 2018 EQUIPMENT BUYERS.

In December 2017, the House and Senate passed the Tax Cuts and Jobs Act (TCJA). The TCJA increased bonus depreciation to 100% and increased Sec. 179 expensing limits. Under the TCJA, used equipment purchases are now eligible for bonus depreciation.

This tax law can potentially mean big tax savings for you. This brochure is intended to help companies that are considering equipment purchases to understand the basics of the TCJA and answer some common questions.



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## TCJA: QUICK SUMMARY

Learn how your business may benefit from bonus depreciation and Sec. 179 expensing. Check with your tax professional for more details.

### To be eligible for bonus depreciation, the equipment must meet the following requirements:

- The equipment must be depreciable under MACRS and have a depreciation recovery period of 20 years or less. The TCJA also allows the use of bonus depreciation for certain types of water utility property and software. Check with your tax professional regarding the treatment of qualified improvement property.
- The new law removes the requirement that the original use of the equipment begin with the taxpayer. In other words, used equipment can now qualify for bonus depreciation, as long as it is your first use of the equipment. The fact that used equipment is now eligible for bonus depreciation is a significant change from prior law.
- In order to claim 100% bonus depreciation during 2018, the equipment must be acquired and placed in service before Jan. 1, 2019.

## FREQUENTLY ASKED QUESTIONS

### What exactly do the TCJA capital investment incentives mean for my business?

By lowering your taxable income, bonus depreciation and Sec. 179 can dramatically cut your 2018 tax bill, thereby freeing up cash in the near term.

### That sounds too good to be true. What's the catch?

The more you depreciate now, the less you'll be able to depreciate later. In other words, your tax bill in future years will be higher because you'll have less to deduct. But ask yourself this: Would you rather have the tax savings in your pocket now to invest in your company or would you rather have Uncle Sam hold onto your money for additional years?

### How does bonus depreciation work?

Companies that buy equipment in 2018 can depreciate 100% of the cost in the first year.

For a \$100,000 piece of equipment that's eligible for bonus depreciation, the first-year depreciation under the TCJA would be \$100,000.

### Does the equipment have to be new to qualify for bonus depreciation?

**No.** To be eligible, the equipment must be "new to you," meaning it has to be your first use of the equipment. The new law removes the requirement that the original use of the equipment begin with the taxpayer. In other words, used equipment can now qualify for bonus depreciation, as long as it is your first use of the equipment. The fact that used equipment is now eligible for bonus depreciation is a significant change from prior law.

### If I'm leasing a piece of equipment and I decide to buy it, can I claim bonus depreciation?

According to the proposed regulations issued in August 2018, you can claim bonus depreciation on equipment you lease and decide to purchase. Check with your tax advisor for additional information.

### Do the TCJA capital investment incentives apply only to construction equipment?

**No.** A broad range of tangible personal property (but not real estate) is eligible for special tax treatment this year.

### Do I have to use bonus depreciation?

**No.** You may elect out of bonus depreciation (meaning it's your choice whether to use it). Note that bonus depreciation also applies for both regular and alternative minimum tax purposes.

### How did the TCJA change the Sec. 179 expensing law?

The TCJA made permanent the expensing limits under Sec. 179 of the Internal Revenue Code. For the tax year 2018, companies can expense up to \$1,000,000 as long as total purchases do not exceed \$2,500,000. Thereafter, amounts will be indexed for inflation.

For each dollar over, the eligible expensing amount correspondingly drops by one dollar. Thus, companies that spend more than \$3,500,000 on tangible personal property cannot take advantage of Sec. 179. (But they can still use bonus depreciation.)

### To qualify for Sec. 179, does the equipment have to be new?

**No.** Similar to bonus depreciation, Sec. 179 expensing can be applied to both new and used equipment.

### Can you use both bonus depreciation and Sec. 179?

**Yes.** Companies eligible for Sec. 179 can use bonus depreciation. However, you may not find it beneficial to use Sec. 179 due to the favorable changes to bonus depreciation (i.e., 100% expensing on new and used equipment).

### Do equipment rebuilds or reconditioning costs qualify?

Expenditures for equipment rebuilds or reconditioning should qualify for bonus depreciation as long as most of the parts (80% or more as measured by cost) used in the process are "new to you."

### How long do I have to take advantage of bonus depreciation?

In order to claim 100% bonus depreciation during 2018, the equipment must be acquired and placed in service before Jan. 1, 2019.

The TCJA provides 100% bonus depreciation for new and used equipment acquired and placed in service after Sept. 27, 2017, and before Jan. 1, 2023. Starting in 2023, 100% bonus depreciation is reduced by 20% each year. Bonus depreciation is scheduled to be completely phased out by 2027.



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