



P.O. Box 80299, Lincoln, NE 68501 | (402) 421-4400

SECTION 179 SMALL BUSINESS EXPENSING AND BONUS DEPRECIATION

Issue:

In order to remain profitable and be competitive, farmers and ranchers must continually replace and upgrade farm equipment, buildings, and storage facilities. This allows them to reduce maintenance costs, take advantage of labor-saving advances, become more energy efficient and adopt technology that is environmentally friendly.

Farmers and ranchers need tax tools to help them make business purchases while dealing with uncontrollable weather and unpredictable markets that impact farm profitability. When farmers and ranchers have good years, expensing provisions help them to maximize their income to allow for a higher level of equipment purchases. This averages out against the poor years when they don't have money available to invest, making their businesses more efficient and sustainable in the long term.

Tax provisions that accelerate expensing also help farmers and ranchers better manage cash flow, minimize tax liabilities and reduce borrowing needs. Immediate expensing allows farmers and ranchers to cash flow purchases that otherwise would be impossible to make or that would require them to incur debt expense when purchases cannot be delayed. In addition, the ability to immediately expense capital purchases offers the benefit of reducing the record keeping burden associated with the depreciation.

Background:

Section 179 small business expensing allows a taxpayer to deduct all of the cost of new or used business property rather than depreciating the cost over a longer period of time. Qualifying property must be used in an active trade or business like farming and ranching. For 2014, the maximum deduction was \$500,000 of purchased business property reduced dollar for dollar when investments exceeded \$2 million. Unless extended, the deduction for 2015 will be \$25,000 with the deduction reduced dollar for dollar when expenditures exceed \$800,000.

Fifty percent bonus expensing (depreciation) allows a taxpayer to deduct up to half of the cost of new-only business property above what would normally be deductible. While many farmers and ranchers use Section 179 small business expensing, bonus depreciation gives larger operations exceeding expensing limits a way to upgrade and modernize their businesses. Bonus expensing expired at the end of 2014.

Legislative Status:

The House passed H.R. 636, America's Small Business Tax Relief Act of 2015, which makes Section 179 Small Business Expensing permanent with a maximum deduction of \$500,000 of purchased business property reduced dollar for dollar when investments exceeded \$2 million. The bill indexed the thresholds for inflation.

The House Ways and Means Committee passed H.R. 2510 to permanently extend 50 percent bonus appreciation. In addition, the bill expands to include fruit- and nut-bearing plants with preproductive periods of two or more years.

The Senate Finance Committee reported legislation, S. 1666, to extend Section 179 small business expensing for two years (2015-16) with a maximum deduction of \$500,000 and phase out threshold of \$2 million. The thresholds are indexed for inflation. The reported bill also extended 50 percent bonus depreciation for two years (2015-16).

AFBF Policy:

Farm Bureau supports the long term extension of Section 179 small business expensing and 50 percent bonus expensing (depreciation). Farm Bureau also believes that bonus expensing should include all perennial plants with a preproduction period of more than 2 years. In addition, Section 179 small business thresholds should be indexed for inflation.