

Depreciation allows a business to write off the cost of an asset over its useful life, or the number of years the asset will be used in the business. For example, if you purchase a \$10,000 piece of machinery that you'll use for ten years, rather than expense the full \$10,000 in year one, you might write off \$1,000 per year for ten years.

That \$1,000 write-off is nice, but it might not be enough of an incentive to encourage you to reinvest in your business—and Congress wants business owners to stimulate the economy by purchasing assets. That's why they invented bonus depreciation.

Bonus depreciation is a way to accelerate depreciation. It allows a business to write off more of the cost of an asset in the year the company starts using it.

Thanks to the Tax Cuts and Jobs Act of 2017 (TCJA), a business can write off up to 100% of the cost of eligible property purchased after September 27, 2017 and before January 1, 2023, up from 50% under the prior law. However, that 100% limit begins to phase down after 2022. Starting in 2023, the rate for bonus depreciation will be:

2023: 80%  
2024: 60%  
2025: 40%  
2026: 20%

**BOTTOM LINE**, business owners should be having regular conversations with their tax advisors about important purchases and what the possible tax deduction may be.

### **A WORD OF WARNING:**

Don't be the typical farmer...meaning don't rush out in December to buy trucks and equipment you really don't need just to get the write-off.

Essentially, don't let 'the tax tail wag the dog'. Make a good economical decision on what you need and don't simply chase a tax write-off.