

Commercial Replacement Opportunity

The recently passed Tax Cuts and Jobs Act included a provision to allow HVAC products to be immediately expensed. Under Section 179 Small Business Expensing, all components of a “heating, ventilation, and air-conditioning” system can be expensed in the first year instead of being depreciated over 39 years.

SECTION 179 SMALL BUSINESS EXPENSING



BEFORE

39-year depreciation schedule



AFTER

Fully expense HVAC systems immediately

New tax law effective January 1, 2018:

26 U.S. Code § 179 - A taxpayer may elect to treat the cost of any section 179 property as an expense which is not chargeable to capital account. Any cost so treated shall be allowed as a deduction for the taxable year in which the section 179 property is placed in service.

Qualified Real Property applicable includes Heating, ventilation, and air-conditioning property.

What this means for the owner of a commercial building:

The cost of any commercial HVAC equipment placed in service after January 1, 2018 can be deducted as a business expense under Section 179.

Example:

A business owner installs a new heating and air-conditioning rooftop unit. The equipment and labor for installation cost \$14,000. Under old depreciation rules, the owner could only claim approximately \$350 in depreciation expense annually over 39 years. Under the new law, the owner can deduct the full cost of the HVAC equipment (including installation costs) of \$14,000 from their business income the year of the purchase and installation. At the top marginal tax rate that would be applied to this purchase, this will save the business owner \$5,180 in taxes.

Educate your employees and customers about this new provision, and as always, be sure to consult your tax professional.

HVAC NOW QUALIFIES

SECTION 179 SMALL BUSINESS EXPENSING

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BEFORE

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AFTER

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FOR EXAMPLE

A typical commercial heating and air-conditioning unit will cost approximately **\$14,000***

BEFORE



\$350

depreciation expense

AFTER



\$14,000

immediately expensed
reducing the tax bill by over

\$5,000

*The actual cost of HVAC equipment will depend on the specifics of the building and the contractor