BRADFORD TAX INSTITUTE

July 2019

Impact of Death, Retirement, and Disability on the 179 Deduction

Situation

You operate your business as a proprietorship.

In 2017, you purchased for business use a pickup truck with a gross vehicle weight rating greater than 6,000 pounds. Asserting that you use the pickup 100 percent for business, you expensed the entire $55,000 cost.

Tax Question

What happens to that $55,000 expensed amount if you die, retire, or become disabled before the end of the vehicle's five-year depreciation period?

Rules

Section 179 deduction. The Section 179 deduction is simply depreciation in advance. This year, 2019, you can choose to deduct up to $1,020,000 in qualifying Section 179 property, such as a pickup truck with a bed six feet long or longer and a gross vehicle weight rating of more than 6,000 pounds.[1]

Note. Lower limits apply to tax-defined luxury passenger vehicles and tax-code-defined SUVs.[2]

Recapture. If your business use of the pickup truck drops to 50 percent or below, you must recapture and report as taxable income any benefit derived from Section 179 expensing.[3]

Listed property. The pickup truck also is tax-law-defined as "listed property." The listed property rule that applies to a pickup truck is that you must use straight-line depreciation to find the recapture amount of your Section 179 deduction when business use drops to 50 percent or below.[4]

The listed property classification gives you a higher dollar amount of Section 179 recapture income than you would have on a non-listed property asset.[5]

Now that you have the rules, let's apply them to your question about death, disability, and retirement.

Death

If your heirs are not going to pay estate taxes, your death is about as good as it gets. Here's why:

- You get to keep your Section 179 deduction.[6] (It goes to the grave with you.)
- Your pickup truck gets marked up to fair market value.[7] (Remember, you expensed it to zero, but now at your death, the fair market value is the new basis to your heir or heirs.)

Example. Using Section 179, you expensed the entire cost of your $55,000 pickup truck. You die. Your daughter Amy inherits the pickup at its fair market value, which is now $31,000, and sells it immediately for $31,000. Here are the results:

- You get to keep your Section 179 deduction—no recapture applies.
- Amy pays zero tax on her sale of the pickup truck.
- Your estate includes the $31,000 fair market value of the pickup, and if your estate is less than $11.4 million, your estate pays no estate taxes.[8]

Disability

This is ugly. If you become disabled and you allow your business use of the pickup to fall to 50 percent or below during its five-year depreciable life, you must recapture and pay taxes on the excess deductions generated by the Section 179 deduction.[9]

To make matters worse, you must use straight-line depreciation in making the excess-deduction calculation.[10]

Retirement

With retirement, you have exactly the same problem as you would have if you became disabled. In fact, with retirement, you disable your business involvement, and that makes your pickup truck fail the more-than-50-percent-business-use test, resulting in recapture of the excess benefit over straight-line depreciation.

Takeaways

You need to consider how your Section 179 deductions play out should you become disabled, retire, or die.

As you learned in this article, tax law does not let you simply retire and walk away from your business. You need to consider Section 179 recapture taxation if you are thinking of retiring.

With death or disability, you have two totally different consequences: no recapture for death, but likely recapture caused by dropping to 50 percent or less business use for disability.

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1 IRC Section 179(b)(1) 2018; Rev. Proc. 2018-57.
2 IRC Section 179(b)(5) 2018; IRC Section 280F 2018; Rev. Proc. 2018-57.
3 Reg. Section 1.179-1(e).
4 IRC Sections 280F(d)(1) 2018; 280F(b)(1) 2018.
5 IRC Sections 280F(b)(1) 2018; 168(g) 2018.
6 Prop. Reg. Section 1.168-2(l)(1).
7 IRC Sections 1245(b)(2); 1014(a)(1).
8 Rev. Proc. 2018-57.
9 IRC Section 179(b)(1) 2018.
10 IRC Sections 280F(b)(1) 2018; 168(g) 2018.