# Farm Equipment and Your Tax Bill: Understanding the 2026 Deduction Updates

Equipment decisions affect nearly every part of a farm, from labor and safety to productivity and cash flow. As producers evaluate repairs, replacements and improvements, updated federal tax provisions add another consideration: the opportunity to deduct qualifying investments sooner.

For 2026, higher Section 179 limits and restored 100% bonus depreciation give eligible businesses more flexibility in recovering equipment costs. Understanding these provisions can help producers ask better questions before committing to a purchase.

The starting point remains the same: identify what your operation needs, determine what it can afford and then evaluate how available deductions fit the plan.

**What Changed for 2026?**

For tax years beginning in 2026, the maximum Section 179 deduction is $2,560,000. The deduction begins decreasing, dollar for dollar, when the total cost of qualifying property placed in service during the year exceeds $4,090,000.
That second figure is a phaseout threshold, rather than an absolute purchasing limit. An operation can invest more, but its available Section 179 deduction becomes smaller.

Separately, federal legislation restored 100% bonus depreciation for eligible property acquired and placed in service after January 19, 2025. Together, these provisions create opportunities to accelerate deductions, although different eligibility rules apply to each.

**Understanding Section 179**

Section 179 allows businesses to elect to expense qualifying property in the year it is placed in service rather than recovering its cost through depreciation over several years.

Eligible purchases can include new or qualifying used equipment and certain software. However, Section 179 is subject to a business income limitation. A producer may be unable to deduct the entire elected amount immediately, even when the purchase falls below the annual dollar limit. Amounts disallowed because of that income limitation generally carry forward.

For farms with variable earnings, this makes an income projection valuable. The available deduction depends on more than the equipment's price.

**Where Bonus Depreciation Fits**

Bonus depreciation is another method of accelerating cost recovery. The restored 100% allowance generally applies to qualifying property acquired and placed in service after January 19, 2025, subject to applicable requirements.

In January 2026, the IRS issued Notice 2026-11 explaining the restored provision and providing interim guidance.Unlike Section 179, bonus depreciation generally is not limited by taxable income from an actively conducted business, although other loss limitations can affect the tax result. It may create or increase a tax loss.

The two provisions can work together, but they do not allow a business to deduct the same equipment cost twice. Your tax preparer can determine the appropriate treatment and whether an election to use a different approach makes sense.

**What Might Qualify on a Farm?**

Potentially eligible assets include tractors, hay equipment, feeding machinery, certain livestock handling equipment and qualifying farm technology. Purchased breeding livestock and certain agricultural structures may also qualify, depending on their classification and the applicable rules. Used equipment can be eligible, but purchasing from a related party or acquiring property previously used by the taxpayer can raise restrictions. Land itself is not depreciable. Equipment held for personal use does not become deductible simply because its owner also operates a farm.

For Section 179, property generally must be used more than 50% for business, and only the business portion of its cost is eligible. Vehicles have additional rules and limitations that deserve separate review.

**A Deduction Is Different From a Credit**

A full write-off does not mean the government reimburses the purchase price. A deduction reduces taxable income; the resulting tax savings depend on the taxpayer's circumstances.

Consider equipment costing $25,000. If the full amount qualifies for an immediate deduction and reduces income otherwise taxed at 21%, the simplified federal income tax savings would be $5,250.

The remaining economic cost would be $19,750 before considering financing charges, other taxes or additional tax effects. That 21% rate is only an illustration. Farms operate under different business structures, and owners may face different marginal rates. An individual projection provides a more useful estimate than a general savings calculator.

**The Deadline Involves More Than Ordering**

For a calendar-year business seeking a 2026 deduction, qualifying equipment generally must be placed in service by December 31, 2026.

Placed in service means ready and available for its intended business use. Ordering equipment, paying a deposit or signing financing documents alone does not establish that requirement.

A machine awaiting delivery or installation may miss the deadline even if payment occurred earlier. Ask about delivery schedules, setup, necessary attachments and installation requirements before making a purchase. Keep records showing when the equipment became ready and available. Operations using a fiscal tax year should confirm their applicable deadline with their preparer.

**Financing Requires a Separate Cash Flow Review**

Financing a qualifying purchase may allow a deduction based on eligible equipment cost even though loan payments extend over several years. That timing difference can help preserve working capital.

However, the loan remains payable after the deduction has been taken. Interest, repayment schedules and seasonal revenue still determine whether the purchase fits the operation.

Lease arrangements require particular attention because tax treatment depends on whether the agreement represents a true lease or a purchase for tax purposes. Compare the total financing cost and repayment obligations alongside the projected tax benefit. A deduction can improve the numbers without making an otherwise unaffordable investment practical.

**Put the Farm's Needs First**

Before purchasing, identify the problem the investment will solve. Will it reduce repair downtime, improve livestock handling, save labor or support a necessary expansion? Then compare the purchase against alternatives, including repair, custom services or postponement. Review expected income, existing debt and next season's operating expenses with your financial advisers. Ask whether taking the largest available deduction now supports your longer-term plan.Good equipment planning connects tax opportunities with measurable farm improvements. The strongest investment is one that serves the operation well after the current tax year ends.

***This article provides general educational information. Consult your tax professional about eligibility, elections, federal and state treatment, and your operation's circumstances.***