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RAPID DEPRECIATION FOR TAX PURPOSES
By: JIM GENTRY, CPA

The Tax Cuts and Jobs Act (tax reform) passed at the end of 2017 enhanced the existing rapid depreciation rules for certain fixed assets. If businesses desire to utilize rapid depreciation, they have a choice between two code sections as follows:

Increased Code Section 179 Expensing
For property placed in service in tax years beginning after Dec. 31, 2017, the maximum amount a taxpayer may expense under Code Section 179 is increased to $1 million, and the phase-out threshold amount is increased to $2.5 million. For tax years beginning after 2018, these amounts (as well as the $25,000 sport utility vehicle limitation) are indexed for inflation.

Qualified real property. The definition of Code Section 179 property is expanded to include certain personal property even though it is used predominantly to furnish lodging or in connection with furnishing lodging. The definition of qualified real property eligible for Code Section 179 expensing is also expanded to include the following improvements to nonresidential real property after the date such property was first placed in service: roofs; heating, ventilation, and air-conditioning property; fire protection and alarm systems; and security systems. Also, any other building improvements to nonresidential real property that aren't elevators or escalators, building enlargements or attributable to internal structural framework are Code Section 179 property.

First Year Bonus Depreciation - Temporary 100% Cost Recovery of Qualifying Business Assets
A 100% first-year deduction for the adjusted basis is allowed for qualified property acquired and placed in service after Sept. 27, 2017, and before Jan. 1, 2023 (after Sept. 27, 2017 and before Jan. 1, 2024 for certain aircraft and property with longer production periods). Thus, the phase-down of the 50% allowance to zero that occurs for property placed in service during 2018, 2019 and 2020 (2019, 2020 and 2021 for certain aircraft and property with a long production period) is repealed. The additional first-year depreciation deduction is allowed for new and used property.

In later years, the first-year bonus depreciation deduction phases down, as follows:

- 80% for property placed in service after Dec. 31, 2022 and before Jan. 1, 2024.
- 60% for property placed in service after Dec. 31, 2023 and before Jan. 1, 2025.
- 40% for property placed in service after Dec. 31, 2024 and before Jan. 1, 2026.
- 20% for property placed in service after Dec. 31, 2025 and before Jan. 1, 2027.

For certain property with longer production periods, the beginning and end dates in the list above are increased by one year. For example, bonus first-year depreciation is 80% for long-production-period property placed in service after Dec. 31, 2023 and before Jan. 1, 2025.

First-year bonus depreciation sunsets after 2026.

For productions placed in service after Sept. 27, 2017, qualified property eligible for a 100% first-year depreciation allowance includes qualified film, television and live theatrical productions. A production is considered placed in service at the time of initial release, broadcast, or live staged performance.

For trees and vines bearing fruit or nuts and certain other specified plants planted or grafted after Sept. 27, 2017, and before Jan. 1, 2027, the 100% first-year deduction is also available subject to phase out rules similar to those above.

For the first tax year ending after Sept. 27, 2017, a taxpayer can elect to claim 50% bonus first-year depreciation (instead of claiming a 100% first-year depreciation allowance) if desired.

If you have questions about this or any other business or tax issue, please contact your Account Manager or Jim Gentry, CPA, at (314) 205-2510 or via email at jgentry@connerash.com.