

A Funny Thing Happened on the Way to Bonus Depreciation Tax Reform

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As part of tax reform several changes impacting tax depreciation took effect on September 27, 2017. However, these changes are not as straight-forward as they seem and a significant mistake was made along the way. This article looks specifically at the impact of tax reform on bonus depreciation.

Tax Reform Changes

- For any qualifying fixed assets acquired and placed in service after September 27, 2017 and before December 31, 2022, bonus depreciation is 100% of the cost basis. Qualifying property includes any new or used property that uses the MACRS depreciation method and has a tax life of 20 years or less.
- Effective December 31, 2017, the qualified leasehold improvement, qualified retail improvement, and qualified restaurant improvement classifications are all removed from the code and essentially become part of the Qualified Improvement Property ("QIP") classification.
- QIP (an improvement to *an interior portion* of a building that is nonresidential real property provided the improvement is placed in service after the date that the building was first placed in service) is removed from the list of property that qualifies for bonus depreciation.

The Complexity

So a taxpayer can take 100% bonus on all assets placed in service after September 27? Not so fast. The key word in the new provision is "acquired." If a written binding contract for the acquisition of property is in effect prior to September 28, 2017, the property is considered to be acquired prior to September 27, 2017 and 100% bonus does not apply. If an asset with a binding contract prior to September 27 is placed in service in 2017, then the 50% bonus deduction applies. However, if this asset is not placed in service until 2018, the 40% bonus deduction applies under the old rules.

The Mistake

The original intent was to change the tax life of QIP to 15-years. By doing so, QIP would automatically qualify for bonus depreciation as it would be a MACRS asset with a tax life of less than 20-years. With this designation, QIP would no longer need to be listed as bonus-eligible. However, ***they forgot to include this change in the final bill. WHOOPS!!***

What This Means

Without a technical correction, this essentially means that QIP property placed in service after December 31, 2017 is 39-year property that is not eligible for bonus depreciation. While a technical correction is expected, the current political climate does not make this a sure thing.

However, if QIP property is acquired and placed in service after September 27 and before December 31 of 2017, then this property should qualify for the 100% bonus deduction.

Special consideration should be given to all fixed assets placed in service in the final quarter of 2017, to ensure that the proper depreciation method is being used.

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