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New Rules and Limitations for Depreciation and Expensing

IRS has issued a fact sheet that highlights some of the new rules and limitations for depreciation and expensing under the Tax Cuts and Jobs Act (TCJA).

Section 179

Increased expensing amounts. A taxpayer may elect to expense the cost of any Code Sec. 179 property and deduct it in the year the property is placed in service. The TCJA increased the maximum deduction from $500,000 to $1 million, and increased the phase-out threshold from $2 million to $2.5 million, effective for property placed in service in tax years beginning after 2017.

The TCJA also expanded the definition of Code Sec. 179 property, to allow taxpayers to elect to include the following improvements made to nonresidential real property after the date when the property was first placed in service:

- Qualified improvement property, which means any improvement to a building's interior, except improvements attributable to the enlargement of the building, any elevator or escalator, or the internal structural framework of the building.

- Roofs, HVAC, fire protection systems, alarm systems and security systems.

Bonus

First-year bonus depreciation. The TCJA increased the bonus depreciation percentage from 50% to 100% for qualified property acquired and placed in service after Sept. 27, 2017, and before Jan. 1, 2023.

The definition of property eligible for 100% bonus depreciation was expanded to include ***used*** qualified property acquired and placed in service after September 27, 2017 with certain limitations.

Automobiles

Luxury auto limits. The TCJA changed depreciation limits for passenger vehicles placed in service after Dec. 31, 2017. If the taxpayer doesn't claim bonus depreciation, the greatest allowable depreciation deduction is: $10,000 for the first year, $16,000 for the second year, $9,600 for the third year, and $5,760 for each later tax year in the recovery period.

On the other hand, if a taxpayer claims 100% bonus depreciation, the greatest allowable depreciation deduction is: $18,000 for the first year, $16,000 for the second year, $9,600 for the third year, and $5,760 for each later tax year in the recovery period.

Real Property

Recovery period-real property. For property placed in service after 2017, the TCJA shortened the alternative depreciation system (ADS) recovery period for residential rental property from 40 years to 30 years. Also under the TCJA, qualified leasehold improvement property, qualified restaurant property and qualified retail improvement property are no longer separately defined and given a special 15-year recovery period.

If you have any questions about how these strategies apply to your particular situation, please contact our office so we can assist you.

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