



# Tax Cuts and Jobs Act Depreciation

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The Tax Cuts and Jobs Act is the biggest federal tax law change in over 30 years. Below are some significant changes affecting depreciation provisions. **Note:** Except where noted, the changes are effective for property acquired and placed in service after December 31, 2017.

## Section 179 Expense Deduction

**Increased limits.** The new law increases the maximum amount a taxpayer may expense under Section 179 to \$1,000,000, and increases the phase-out threshold amount to \$2,500,000. The \$1,000,000 amount is reduced (but not below zero) by the amount by which the cost of qualifying property placed in service during the tax year exceeds \$2,500,000. The \$1,000,000 and \$2,500,000 amounts, as well as the \$25,000 sport utility vehicle limitation, are indexed for inflation for tax years beginning after 2018.

**Expanded property definitions.** The new law expands the definition of Section 179 property to include certain depreciable tangible personal property used predominantly to furnish lodging or in connection with furnishing lodging. Property used predominantly to furnish lodging or in connection with furnishing lodging generally includes beds and other furniture, refrigerators, ranges, and other equipment used in the living quarters of a lodging facility such as an apartment house, dormitory, or any other facility (or part of a facility) where sleeping accommodations are provided.

The new law also expands the definition of qualified real property eligible for Section 179 expensing to include any of the following improvements to nonresidential real property placed in service after the date the real property was first placed in service:

- Roofs,
- Heating, ventilation, and air-conditioning property,
- Fire protection and alarm systems, and
- Security systems.

## Special (Bonus) Depreciation Allowance

The new law increases the special (bonus) depreciation to 100% for property acquired (and placed in service) after September 27, 2017, and before January 1, 2023, with a new phase-down schedule for years after 2022 (80% in 2023, 60% in 2024, 40% in 2025, 20% in 2026).

For 2017 only, taxpayers can elect to apply 50% special depreciation instead of 100%. For all other years, taxpayers must elect out of special depreciation or claim the 100% allowance.

The prior law phase-down of special depreciation still applies to property acquired before September 28, 2017, even if placed in service after that date (40% for 2018, 30% for 2019).

**New and used property.** The new law allows special depreciation for both new and used property. Previously, used property did not qualify for the special depreciation allowance.

**Luxury autos.** For passenger automobiles purchased and placed in service after December 31, 2017, and for which special depreciation is not claimed, the maximum amount of allowable depreciation has increased to \$10,000 for the year in which the vehicle is placed in service, \$16,000 for the second year, \$9,600 for the third year, and \$5,760 for the fourth and later years in the recovery period. The 100% special depreciation allowance does not apply for luxury autos. Instead, the special depreciation limit is now set at \$8,000. Therefore, the maximum



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amount deductible for the first year if special depreciation is claimed is \$18,000 (\$8,000 special depreciation limit plus \$10,000 first-year depreciation limit).

**Qualified film, television, and live theatrical productions.** The new law expands the definition of qualified property eligible for special depreciation to include qualified film, television and live theatrical productions acquired and placed in service after September 27, 2017, and before January 1, 2027.

**Corporate AMT.** With the repeal of the corporate AMT, the election to accelerate AMT credits in lieu of special depreciation is repealed.

### **Qualified Improvement Property**

**Prior Law.** Nonresidential real property is generally depreciated under MACRS over 39 years. An exception applies for certain qualified real property. 15-year MACRS depreciation using the straight-line method is available for qualified leasehold improvement property, qualified restaurant property, and qualified retail improvement property. In addition, such property is also eligible to be expensed under Section 179. The definition of each of these three categories differ from each other in various ways.

**New Law.** The new law eliminates the separate definitions of qualified leasehold improvement, qualified restaurant, and qualified retail improvement property. Qualified improvement property is defined as any improvement to an interior portion of a building which is nonresidential real property if the improvement is placed in service after the date the building was first placed in service. The term does not include any improvement for which the expenditure is attributable to the enlargement of the building, any elevator or escalator, or the internal structural framework of the building.

For example, qualified improvement property placed in service after December 31, 2017, is generally depreciable over 15-years (under MACRS) using the straight-line method and half-year convention, without regard to whether the improvements are property subject to a lease, placed in service more than three years after the date the building was first placed in service, or made

to a restaurant building. Restaurant building property placed in service after December 31, 2017, that does not meet the definition of qualified improvement property is depreciable over 39 years as nonresidential real property, using the straight-line method and the midmonth convention.

### **Computers and Peripheral Equipment**

The new law removes computers and peripheral equipment from the definition of listed property. As a result, the property is not subject to the heightened substantiation requirements that apply to listed property.

### **Farming Equipment and Machinery**

The new law shortens the recovery period from seven to five years for any machinery or equipment (other than any grain bin, cotton ginning asset, fence, or other land improvement) used in a farming business, the original use of which commences with the taxpayer and is placed in service after December 31, 2017. Original use means the 5-year recovery period does not apply to used equipment.

The new law also repeals the required use of the 150% declining balance method for property used in a farming business (i.e., for 3-, 5-, 7-, and 10-year property). The 150% declining balance method will continue to apply to any 15-year or 20-year property used in the farming business to which the straight line method does not apply, or to property for which the taxpayer elects the use of the 150% declining balance method.

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### **Contact Us**

There are many events that occur during the year that can affect your tax situation. Preparation of your tax return involves summarizing transactions and events that occurred during the prior year. In most situations, treatment is firmly established at the time the transaction occurs. However, negative tax effects can be avoided by proper planning. Please contact us in advance if you have questions about the tax effects of a transaction or event, including the following:

- Pension or IRA distributions.
- Significant change in income or deductions.
- Job change.
- Marriage.
- Attainment of age 59½ or 70½.
- Sale or purchase of a business.
- Sale or purchase of a residence or other real estate.
- Retirement.
- Notice from IRS or other revenue department.
- Divorce or separation.
- Self-employment.
- Charitable contributions of property in excess of \$5,000.