

The Depreciation Accelerator for Real Estate POST-OB₃



POST-OB₃

YEAR	PROPERTY TYPE	BONUS ⁽¹⁾	QIP ⁽²⁾	QPP ⁽²⁾	179 EXPENSING ⁽⁴⁾
2020	N/A	100%	15-yr 20-yr ADS	—	Exp. Limit = \$1.04M Phase Out = \$2.59M
2021	N/A	100%	15-yr 20-yr ADS	—	Exp. Limit = \$1.05M Phase Out = \$2.62M
2022	N/A	100%	15-yr 20-yr ADS	—	Exp. Limit = \$1.08M Phase Out = \$2.70M
2023	N/A	80%	15-yr 20-yr ADS	—	Exp. Limit = \$1.16M Phase Out = \$2.89M
2024	N/A	60%	15-yr 20-yr ADS	—	Exp. Limit = \$1.22M Phase Out = \$3.05M
2025	Acquisition	WBC ⁽⁵⁾ Signed Before 1.20.2025: 40%	15-yr 20-yr ADS	—	Exp. Limit = \$2.50M Phase Out = \$4.00M
		WBC Signed On/After 1.20.2025: 100%	15-yr 20-yr ADS	100%	
	New Construction / Renovation ⁽⁶⁾	Construction Begun Before 1.20.2025: 40%	15-yr 20-yr ADS	—	
		Construction Begun On/After 1.20.2025: 100%	15-yr 20-yr ADS	100%	
2026	Acquisition	WBC Signed Before 1.20.2025: 20%	15-yr 20-yr ADS	—	Exp. Limit = \$2.50M* Phase Out = \$4.00M* *Will be indexed for inflation
		WBC Signed On/After 1.20.2025: 100%	15-yr 20-yr ADS	100%	
	New Construction / Renovation	Construction Begun Before 1.20.2025: 20%	15-yr 20-yr ADS	—	
		Construction Begun On/After 1.20.2025: 100%	15-yr 20-yr ADS	100%	
2027	N/A	100%	15-yr 20-yr ADS	100%	TBD
2028	N/A	100%	15-yr 20-yr ADS	100%	TBD
2029	N/A	100%	15-yr 20-yr ADS	100%	TBD

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- (1) BONUS DEPRECIATION:** (A) Qualified property
- (i) has a recovery period of 20 years or less
 - (ii) is computer software other than software amortizable under Sec.197 (as defined in section 167(f)(1)(B))
 - (iii) is water utility property.

Planning Notes:

- Bonus is available via look-back study, as long as the taxpayer did not specifically opt-out of bonus for that year.
- Property that must be depreciated using the Alternative Depreciation System (ADS) does not qualify for bonus.
- Original use of the property need not have commenced with the current taxpayer.
- Interpretation of mid-year split of bonus rates is based on previously issued IRS guidance (Reg. 1.168(k)-1(b)(4) and Revenue Procedure 2011-26) and is subject to change.
- Any property used in a trade or business that has had floor plan financing indebtedness is not qualified property eligible for bonus depreciation if the floor plan financing interest to the debt is taken into account for purposes of the business interest deduction limitation (Code Sec. 168(k)(9), as added by the 2017 Tax Cuts Act).

- (2) QUALIFIED IMPROVEMENT PROPERTY (QIP)** 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 by any taxpayer.

Planning Notes:

- The following improvements are NOT eligible under QIP: (i) A building's enlargement, (ii) any elevator or escalator, (iii) the internal structural framework of the building.
- QIP placed-in-service after 12.31.2017 is assigned a 15-year depreciable MACRS class life, and is therefore eligible for bonus depreciation when available.

(3) QUALIFIED PRODUCTION PROPERTY (QPP):

Newly constructed and certain existing non-residential real estate used for manufacturing, production, or refining of tangible personal property in the US. A new property class established by the One Big, Beautiful Bill Act that will receive temporary 100% bonus depreciation.

Planning Notes:

- Construction must commence on/between 1.20.2025 – 1.01.2029, and property must be placed-in-service before 1.1.2031.
- Only portions of property directly related to manufacturing are eligible – offices, parking areas, and other non-production areas are excluded.
- To qualify as QPP, original use of the property must have commenced with the taxpayer. However, properties acquired between 1.20.2025 – 1.01.2029 may be eligible if the following conditions are met:
 - Property was not used in a qualified production activity by any person at any time during the period beginning on 1/01/2021 and ending on 05/12/2025
 - Property was not used by the taxpayer at any time prior to the acquisition
 - Property's acquisition meets the requirements of paragraphs (2)(A), (2)(B), (2)(C), and (3) of section 179(d).

(4) 179 EXPENSING:

Taxpayers may elect to treat the cost of qualifying property, called "section 179 property" as a deductible expense rather than a capital expenditure. Effective 1/1/2018, qualifying real property is defined as:

- (i) Qualified improvement property
- (ii) Any of the following improvements to the interior of nonresidential real property that are placed-in-service after the nonresidential real property was first placed-in-service:

- Roofs
- Heating, ventilation, and air-conditioning property
- Fire protection and alarm systems; and
- Security systems (Code Sec. 179 (f), as amended by 2017 Tax Cuts and Jobs Act.)

Planning Notes:

- The Expensing Limitation (Exp. Limit) represents the overall amount that may be deducted using Sec. 179.
- When the Phase-Out Threshold (Phase Out) is exceeded, the potential Deduction value will begin to decrease.
- Section 179 property may be new or used.

(5) WRITTEN BINDING CONTRACT** If a written binding contract for the acquisition of property is in effect prior to January 20, 2025, the property is not considered acquired after the date the contract is entered into (Act Sec. 70301 of the 2025 One Big Beautiful Bill Act). A contract is binding only if it is enforceable under State law against the taxpayer or a predecessor, and does not limit damages to a specified amount. An option to buy or sell is not a written binding contract as used here. The contract will not be a binding contract for the property to be purchased until both the purchase price and the design specifications are delineated. ****Subject to change upon the release of further guidance.**

(6) BEGINNING OF CONSTRUCTION In general, manufacture, construction, or production of property begins when physical work of a significant nature begins. Physical work does not include preliminary activities such as planning or designing, securing financing, exploring, or researching. The determination of when physical work of a significant nature begins depends on the facts and circumstances.

IRS Safe Harbor Option: Physical work of a significant nature will not be considered to begin before the taxpayer incurs (in the case of an accrual basis taxpayer) or pays (in the case of a cash basis taxpayer) more than 10 percent of the total cost of the property.

****Subject to change upon the release of further guidance.**

