

# The Depreciation Accelerator FOR REAL ESTATE



PRE-OB3

YEAR	DATES	PROPERTY TYPE	BONUS <sup>(1)</sup> (for assets depreciated using MACRS class lives only)	QIP <sup>(2) *</sup>	179 EXPENSING <sup>(5)</sup>
2017	1/1/2017 – 12/31/2017	Acquisition	WBC(3) Signed Before 9/28/17: NONE	39-yr	N/A
			WBC(3) Signed After 9/27/17: 100% (or 50% Bonus election)	39-yr	
		New Construction(4) /Renovation	Construction Begun Before 9/28/17: 50%	39-yr	
			Construction Begun After 9/27/17: 100%	39-yr	
2018	1/1/2018 – 12/31/2018	Acquisition	WBC(3) Signed Before 9/28/17: NONE	15-yr   20 year ADS	TCJA Rules are: as of 1/1/18, subsection (f) of section 179 was amended to include the following assets: <ul style="list-style-type: none"> <li>• QIP</li> <li>• Roofs</li> <li>• Energy Efficient HVAC</li> <li>• Fire protection and alarm systems</li> <li>• Security Systems</li> </ul>
			WBC(3) Signed After 9/27/17: 100%	15-yr   20 year ADS	
		New Construction(4) /Renovation	Construction Begun Before 9/28/17: 40%	15-yr   20 year ADS	
			Construction Begun After 9/27/17: 100%	15-yr   20 year ADS	
2019	1/1/2019 – 12/31/2019	Acquisition	WBC(3) Signed Before 9/28/17: NONE	15-yr   20 year ADS	TCJA Rules Apply
			WBC(3) Signed After 9/27/17: 100%	15-yr   20 year ADS	
		New Construction(4) /Renovation	Construction Begun Before 9/28/17: 30%	15-yr   20 year ADS	
			Construction Begun After 9/27/17: 100%	15-yr   20 year ADS	
2020	1/1/2020--12/31/2020	N/A	100%	15-yr   20 year ADS	TCJA Rules Apply
2021	1/1/2021 – 12/31/2021	N/A	100%	15-yr   20 year ADS	TCJA Rules Apply
2022	1/1/2022 – 12/31/2022	N/A	100%	15-yr   20 year ADS	TCJA Rules Apply
2023	1/1/2023 – 12/31/2023	N/A	80%	15-yr   20 year ADS	TCJA Rules Apply
2024	1/1/2024 - 12/31/2024	N/A	60%	15-yr   20 year ADS	TCJA Rules Apply
2025	1/1/2025 - 12/31/2025	N/A	40%	15-yr   20 year ADS	TCJA Rules Apply
2026	1/1/2026 - 12/31/2026	N/A	20%	15-yr   20 year ADS	TCJA Rules Apply

DISCLAIMER: Walz Group, with its issuance of this chart, is not providing tax, legal or accounting advice. This material has been prepared for informational purposes only. It is not intended to provide, and should not be relied upon for, tax, legal or accounting advice. Taxpayers should consult their personal tax, legal and accounting advisors before engaging in any transaction.



**(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. After 9/27/2017, original use of the property **need not** have commenced with the current taxpayer. The taxpayer must place the property in service within the dates specified and written binding contract (WBC) rules apply. (B) Long Production Period Property is eligible for Bonus at established rates for an additional year.

**Planning Notes:**

- Bonus depreciation 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.
- Acquisitions subject to a written binding contract signed on or after 9/28/17 will be Bonus-eligible.
- 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) 15-yr 2018 - Onward:** 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. Replaces the separate categories of Qualified Leasehold Improvements, Qualified Restaurant Improvements, and Qualified Retail Improvement Property.

**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.
- **\*Section 2307 of the CARES Act assigned a 15-year depreciable life to QIP placed-in-service after 12/31/2017, thereby allowing it to be characterized as qualified property eligible for bonus depreciation.**

**(3) WRITTEN BINDING CONTRACT (WBC):**

If a written binding contract for the acquisition of property is in effect prior to September 28, 2017, the property is not considered acquired after the date the contract is entered into (Act Sec. 13201(h)(1) of the 2017 Tax Cuts 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.

**(4) 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.

**(5) 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 the 2017 Tax Cuts and Jobs Act.)

**Planning Notes:**

- Dollar limitation is increased to \$1 million and the investment limitation increased to \$2.5M beginning in TY 2018.
- The exclusion of tangible personal property used in connection with lodging facilities (i.e. hotels) has been eliminated.
- Section 179 property may be new or used.

**ADS (Alternative Depreciation System) CLASS LIVES UNDER TCJA**

- Residential real property: 30 years
- Nonresidential real property: 40 years
- Qualified Improvement Property: 20 years

**ADDITIONAL REFERENCES**

1. Code Sec. 168(k)(1)(A) and (6)(A), as amended by the Tax Cuts and Jobs Act (P.L. 115-97) -- Authorizes bonus depreciation at 100% after 9/27/17
2. Code Sec. 163(j), as amended by the Tax Cuts and Jobs Act (P.L. 115-97) -- Limits business interest deduction for taxpayers with average annual gross receipts over \$25M

**FINALIZED REGULATION TD 9916**

**Finalized regulation TD 9916 addresses** property not acquired pursuant to a written binding contract and a new election for components acquired or self-constructed after 9/27/2017, of larger self-constructed property for which the manufacture, construction, or production of the larger self-constructed property begins before 9/28/2017.

For guidance on these issues, please consult your tax professional.

