

YEAR END TAX PLANNING CONSIDERATIONS FOR PROPERTY OWNERS IN LIGHT OF BONUS DEPRECIATION PHASE OUT

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The real estate and hospitality industries have gotten very comfortable with the luxury of having 100 percent bonus depreciation on certain asset classes since it was re-enacted by the Tax Cuts and Jobs Act on September 27, 2017.

This luxury is set to phase out starting January 1, 2023, until it is fully eliminated in 2027 as follows:

Period	Bonus Depreciation Percentage
9/27/2017 – 12/31/2022	100%
2023	80%
2024	60%
2025	40%
2026	20%
2027	0%

Taxpayers have the remainder of the calendar 2022 year to take advantage of 100% bonus depreciation on qualifying property. Qualifying property is loosely defined as property with a depreciable life of 20 years or less. In general, machinery and equipment bought new or used (new to the taxpayer) qualifies. Important for real estate and other industries, thanks to the Coronavirus Aid, Relief, and Economic Security Act update, Qualified Improvement Property (QIP) is 15-year property and eligible for 100% bonus depreciation. QIP consists of building improvements to an interior portion of a nonresidential building placed in service after the date the building was placed in service. Many tenant improvements fit into this category. QIP excludes elevators, structural modifications, or any enlarging construction work. It is important to note that bonus depreciation is not available on QIP for taxpayers in real property trades or businesses that have made the election out of the Sec. 163j interest expense limitation.

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Cost segregation, another relevant tax savings opportunity for real estate assets and very important when considering bonus depreciation, takes buildings with 27.5- or 39-year depreciable lives and allocates a significant portion of the cost into shorter-lived assets – QIP, furniture, equipment, etc. These are all items eligible for bonus depreciation and can result in tax savings and increased cash flow.

An advantage of planning early is avoiding delays caused by recent production trends. Whether it is construction materials or business vehicles, items can take months to get. If a placed-in-service date is delayed until 2023, property owners miss out on an accelerated deduction.

This is a brief overview of bonus depreciation, just scratching the surface of rules and tools to use and take advantage of current tax rules. This is a complex area with tax implications so please reach out to your real estate tax professional for guidance.

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