

BONUS DEPRECIATION FOR ACQUIRED ASSETS

Public and private companies engage Marshall & Stevens to value and categorize acquired assets (machinery, equipment, and improvements) in order to claim Bonus Depreciation, for federal tax reporting. The analyses require an application of the IRS's Modified Accelerated Depreciation System ("MACRS"), the Tax Cuts and Jobs Act of 2018 ("TCJA") and most recently, the Coronavirus Aid, Relief, and Economic Security Act ("Cares Act").

Eligibility for Bonus Depreciation

The regulations identify qualified depreciable property as property that meets the following requirements:

- The property must be of a specified type.
- The original use of the property must commence with the taxpayer or used depreciable property must meet the acquisition requirements of section 16(k)(2)(E)(ii).
- The property must be placed in service by the taxpayer within a specified time or must be planted or grafted by the taxpayer before a specified date.
- The property must be acquired by the taxpayer after January 20, 2025. The following is a brief description of each of the requirements.

Property of a Specific Type

Property eligible for bonus depreciation includes:

- Tangible property with a MACRS general depreciation system ("GDS") recovery period of 20-years or less.
- Computer software depreciable under IRC Section 167(f)(1).
- Water utility property.
- Specified fruit and nut plants.
- Qualified film, television, and live theatrical production property.
- Qualified Improvement Property and other 15-year class life assets.

Qualified Improvement Property (QIP) includes certain interior building improvements of most commercial spaces, such as Retail Stores and Restaurants, and excluded QIP placed in service after January 20, 2025

The One Big Beautiful Bill Act (“OBBBA”) corrects the previous TCJA of 2017 drafting error that omitted QIP out of bonus eligibility, restoring the benefit Congress initially intended. Additionally:

- The OBBBA makes permanent 100% bonus depreciation on all QIP placed in service after January 19, 2025, qualifies for full expensing under IRC §168(k) without any phase-down or sunset,
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- QIP continues to fall into the 15-year MACRS class, satisfying the sub-20-year requirement for bonus depreciation, and
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- OBBBA introduced a new IRC Section 168(n) for “qualified production property,” defined as nonresidential real estate used in refining, manufacturing, or production which is eligible for 100% expensing when placed in service before 2031.

Original Use - Eligible Used Property

OBBBA states that used property is eligible for bonus depreciation if:

- The property was not used by the taxpayer or a predecessor at any time prior to acquisition, and
- The acquisition of the property meets the related party and carryover basis requirement.

No longer is IRC Section 179 eligibility required to claim 100% bonus depreciation under IRC 168(k).

Transitional Election

OBBBA includes a one-time transitional election allowing taxpayers to apply the previous TCJA’s phase-down percentages instead of permanent 100% for property placed in service in the first tax year ending after January 19, 2025. For many assets, that transitional rate is 40%, and for long-production-period property or certain aircraft, it’s 60%.

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