

BONUS DEPRECIATION

BUSINESS ADVISORY ACTIONABLE PRINCIPLES



727-530-0036
www.busadvisory.com
2641 McCormick Dr.Suite 103
Clearwater, FL 33759



WHAT IS BONUS DEPRECIATION?

Depreciation

» Decrease in an asset's value over several years as a result of use, decay or obsolescence.



Bonus Depreciation

- » Tax incentive through 2026
- » Deduct a larger percentage of the cost of purchasing eligible assets in year placed in service
 - The remaining cost can be deducted over multiple years using regular depreciation
- » Was enacted to encourage businesses to invest and stimulate the economy


Example –Purchased computer equipment for \$10,000

- | | |
|--|--|
| » Bonus depreciation of \$8,000 in 2023 | » \$8,400 deduction in current year |
| » Remaining \$2,000 spread out over five years | • Without bonus depreciation the first-year deduction is \$2,000 |



QUALIFYING PROPERTY

What assets qualify?

- » Must be placed in service before 12/31
 - » New or first use asset to the acquirer (can be used)
 - » Modified Accelerated Cost Recovery System (MACRS) property with a recovery period of 20 years or less
 - » Depreciable computer software
- 
- » Water utility property
 - » Qualified leasehold improvement property
 - » Vacation property used as a short-term rental
 - » Parts of residential rental estate if the taxpayer conducts a cost segregation study



BENEFITS AND DRAWBACKS



Benefits

- » Substantially lower tax bill in current year
 - Will result in higher bill in future years versus taking standard depreciation
 - Expected tax rate in current and future years should be considered
 - Not necessary to take if company is showing losses
- » Increased cash flow due to lower tax burden
- » Encourages businesses to invest in capital assets because of the benefits

Drawbacks

- » Lower basis in asset may result in a higher gain on sale if asset is disposed in early stage
- » May have to pay recapture tax



FAQS

» **Can you choose which assets on which to take bonus depreciation?**

- » Bonus depreciation is a default depreciation provision unless you elect out of it. If you elect out, you can only elect out by class life.

» **Is it better to take Sec 179 or bonus depreciation?**

- » Section 179 offers greater flexibility but also caps the benefit. Bonus depreciation has no limitations but may force a company to "waste" depreciation that it could benefit from in future years.

» **How do you report bonus depreciation?**

- » To report a bonus depreciation, the election must be made by filing a statement with IRS Form 4562, "Depreciation and Amortization," by the due date (including extensions) of the Federal tax return for the taxable year in which the qualified property is placed in service by the taxpayer.

» **Can bonus depreciation create a loss?**

- » Yes, bonus depreciation can be used to create a net loss. If the bonus depreciation deduction creates a net operating loss for the year, the company can carry forward the net operating loss to offset future income.

» **When does bonus depreciation expire?**

- » Unless the law changes, the bonus percentage will decrease by 20 points each year over the next several years until it phases out completely for property placed in service after Dec. 31, 2026. Bonus depreciation will be 0% for property placed in service Jan. 1, 2027 and later.

» **Is bonus depreciation subject to recapture?**

- » Yes, when property, for which bonus depreciation was claimed, is sold that depreciation is recaptured and taxed as regular income. However, there's a cap on the tax rate of 25%.

