Expensing of Fixed Assets:

Don't Miss an Opportunity Today to Save Real Cash

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Before any corporate tax return is filed for 2017, companies need to consider the changes in expensing of fixed assets. The Tax Cuts and Jobs Act (TCJA) modified the rules related to bonus depreciation as well as Section 179.

Overlooking the value to 2017 provided by the new bonus depreciation rules (no matter how big or small) could cost companies real cash, due in large part to the enhanced deduction limits and change in tax rates from 35% to 21%. It is a smart strategy to analyze which qualified property could be expensed in 2017 as opposed to thinking of it as solely as a timing difference (which many companies would typically do around fixed assets). It is also important to note the treatment of bonus depreciation in 2017 won't preclude your ability in the future to elect out. Electing (or not electing) bonus depreciation is not considered an accounting method, so each year 's additions could be analyzed separately.

Prior to enactment of TCJA, companies were allowed an additional first-year bonus depreciation deduction equal to 50%, whereas the new rule allows a first-year deduction of 100%. The new 100% bonus percentage is allowed for qualified property (including MACRS property with a recovery period of 20 years or less) acquired in a taxable transaction and placed in service after September 27, 2017 and before January 1, 2023, with the bonus percentage phased down by 20% each year for property placed into service between 2023 and 2026. The new law also changes the definition of qualified property by also including used property acquired by purchase as long as the acquiring taxpayer had not previously used the acquired property and the property is not acquired from a related party. Qualified property excludes foreign use property and intangible property.

Further, while initial concerns existed due to a technical glitch, qualified improvement property ("QIP"), placed in service after September 27, 2017 and on or before December 31, 2017, should qualify for 100% bonus depreciation. QIP includes certain improvements to an interior portion of a building that is nonresidential real property if such improvements are placed in service after the date the building was first placed in service. As currently written, the statute does not appear to allow bonus for QIP placed into service after December 31, 2017, so close attention to placed-in-service date is warranted.

The other area that has changed related to fixed asset expensing is Section 179. Companies may elect to deduct the cost of qualifying property, rather than recover such costs through depreciation. The new Section 179 rules allow companies to expense up to $1M (previously $500k) with a phase-out threshold amount of $2.5M (previously $2M). While there is no benefit for 2017 (as the new rules are for property placed in service in tax years beginning after December 31, 2017), companies will need to compare the difference of expensing pursuant to Section 179 to deducting 100% of the adjusted basis (bonus depreciation).

Now that bonus depreciation is 100% of adjusted basis and includes used property, the ultimate driver of whether to elect Section 179 will depend on 1.) amount of fixed assets acquired and placed in service and 2.) state tax implications. It is more likely that the federal bonus depreciation rules will generate a larger state modification (since many states disallow bonus depreciation) than expensing pursuant to Section 179.

Although the fixed asset area has not garnered the same level of media coverage as some of the other components of the TCJA, it is an area that every company could likely benefit from in both the short-term and long-term, if appropriately considered and analyzed relative to each specific fact pattern.

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Opportunity Knocks: 100% bonus depreciation for post-September 27, 2017 fixed asset expenditures can immediately save companies real cash.

Open the door for real cash savings. The 100% bonus depreciation for post-September 27, 2017 qualified property should not be overlooked.

2017 Savings:

- Current tax paying companies can save up to 35% of each additional dollar expensed.
- Companies generating net operating losses (NOLs) can offset up to $1 of future income for every $1 expensed during 2017.

Conversely, 2018 Savings:

- Tax paying companies may only save 21% of each dollar expensed.
- Companies generating NOLs may only be able to offset 80% of future taxable income.