

Bonus depreciation: How TCJA changes can impact your business



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You are probably aware that late last year, The Tax Cuts and Jobs Act (TCJA) made substantial alterations to the tax laws, resulting in sweeping changes to individuals and businesses. Although not specifically addressing the energy sector, many of these modifications will have a positive impact on energy companies.

One of the changes effectively lowered the cost of capital equipment acquisitions by changing the rules for bonus depreciation. Under previous tax rules, 50% bonus depreciation was available for certain “new” eligible property used in a business or in an income producing activity. By accelerating the deduction for machinery, most software, and real property, 50% bonus depreciation was able to lower the true economic cost of these assets. Under TCJA the bonus depreciation is now 100%, generally only applying to property that is acquired and placed in service after September 27, 2017.

Bonus depreciation is available for new and the majority of previously used property, as opposed to before the Act, where property was required to be new. However, the used property will now qualify unless the taxpayer both (1) previously used the property and (2) acquired the property in certain forbidden and tax free transactions, or through a related person or entity. Similar to before, taxpayers should sometimes make the election to turn down bonus depreciation (an “election-out”). Sole proprietorships and entities taxed under the rules for partnerships and S corporations still want to make sure that they don’t “waste” these deductions by applying them against lower-bracket incomes in the year property was placed in service when given an opportunity to apply them against higher bracket income in later years. Under the Act, entities taxed as “regular” corporations are taxed at a flat rate.

While these are the major aspects of bonus depreciation, the TCJA made several smaller significant changes. Even without amendment, TCJA bonus depreciation is a complicated area with tax implications for transactions that are not simple asset acquisitions. There are phase-outs away from 100% over the next few years until bonus depreciation is generally no longer available under current law, beginning after December 31, 2026.

The multitude of changes brought by TCJA can impact your business, with bonus depreciation being only one. Consult with your tax advisor when considering asset acquisitions to get the most benefit from tax savings from these changes in the law.

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