

# BUSINESSES MUST ACT NOW TO TAKE ADVANTAGE OF THE 2022 BONUS DEPRECIATION



The potential value of bonus depreciation for taxpayers was greatly increased by the [Tax Cuts and Jobs Act](#) (TCJA). Originally, the TCJA [went into effect in 2018](#) for any long-term assets placed in service after September 27, 2017. The 100% bonus depreciation amount remains in effect from September 27, 2017, through December 31, 2022. Starting in 2023, the percentage of first-year depreciation that can be claimed as a "bonus" declines; therefore, companies should make necessary preparations prior to year-end.

## What Is Different About the Bonus Depreciation in 2022?

There have been different levels of bonus depreciation available for some time. Before the TCJA went into effect, taxpayers could usually claim bonus depreciation for 50% of the acquisition cost of qualifying property in the first year and depreciate the remainder over the useful life of the asset. Then, with the passage of the TCJA, taxpayers have been able to fully deduct the cost of

eligible property in the year of acquisition by taking 100% bonus depreciation. The TCJA extended and expanded bonus depreciation as an incentive for business growth and commercial investment.

The ability to fully deduct qualified acquired property is eligible through the end of this year. This means that companies can still take advantage of the 100% bonus depreciation amount for qualified property that is put into service in 2022, unless Congress takes action to extend it before year end. Thereafter, the deduction amount will decrease by 20% per year until bonus depreciation expires in 2027.

## **How Can I Take Advantage of the 2022 Bonus Depreciation?**

Taxpayers can benefit from the deduction by, among other things, acquiring property with a 20-year or shorter useful life. This can include, but not limited to, computer hardware, equipment, land improvements, tools, and office furnishings. Both brand-new and secondhand property is acceptable. In general, used property is eligible if it wasn't:

- Purchased from a related party;
- Used by the taxpayer or a predecessor before acquisition; and
- Acquired as part of a tax-free transaction.

Bonus depreciation is also applicable to qualified improvement property, which is typically interior renovations to nonresidential property that do not include elevators, escalators, interior structural framework, or building extension. Although the TCJA's language error made it appear otherwise, the [CARES Act](#) made such property eligible for bonus depreciation going back in time. Subject to certain limitations, taxpayers who put eligible improvement property into operation in 2018, 2019, or 2020 may normally now claim any relevant deductions

not claimed then.

## **2022 Bonus Depreciation: What Qualifies?**

### **New & Used Property**

- Computers
- Equipment
- Machinery
- Hardware
- Commercial Vehicles
- Office Furniture
- Renovations of Commercial Spaces

### **When Is Bonus Depreciation Not Applicable or Advisable?**

Though bonus depreciation may seem like a no-brainer, it might not always be applicable nor the best route.

For example, Buildings do not qualify for bonus depreciation since they have a useful life of 27.5 years (for residential buildings) or 39 years (for commercial buildings). However, cost segregation studies can help taxpayers identify parts of depreciable buildings that may have a shorter useful life and could be eligible for bonus depreciation. These studies are meant to pinpoint the components of real estate that are, in reality, personal property which could then be eligible for bonus depreciation.

There are several common tax advantages or deductions that are dependent on taxable income, including qualified business income, charitable contributions,

and net operating losses. Bonus depreciation may have an impact on the benefit taxpayers can receive from these advantages. Therefore, taxpayers will have to find the balance that provides the best benefit when combining both bonus depreciation and other tax income dependent advantages.

*Related article: [Bonus Depreciation vs. Sect. 179 Expense – What's the Difference?](#)*

## **Why Should I Act Now to Take Advantage of this Bonus?**

This increase to 100% won't last forever. This is how the amount of the deduction will play out if the bonus is not claimed before the end of 2022:

- 80% for property placed in service in calendar-year 2023,
- 60% for property placed in service in calendar-year 2024,
- 40% for property placed in service in calendar-year 2025, and
- 20% for property placed in service in calendar-year 2026.

Keep in mind—unless a taxpayer chooses to opt out, bonus depreciation is automatically applied by the IRS. All qualifying property in the same class that is put into operation during the same tax year is subject to elections (for example, all five-year MACRS property).

## **What Does 'Placed in Service' Mean?**

For anyone who wants to take advantage of 100% bonus depreciation before the maximum deduction amount drops, the [placed-in-service](#) condition is very important. "Placed in service," with regard to bonus depreciation, refers to the date when acquired property is placed into use, meaning that it's ready and available for its assigned purpose.

The placed-in-service date is different from the acquisition date because it depends on delivery and installation time. We advise taxpayers to place their purchases as soon as possible. Given the ongoing shipping delays and shortages of labor, materials, and supplies acting early increases the likelihood of placing qualifying property in service before the end of the year.

## **How Does BMF Advise Clients Considering Investments that Qualify for the Depreciation Bonus?**

This type of tax advantage is particularly beneficial for companies that require heavy capital investments, such as manufacturing, IT consulting, healthcare, trucking and transportation. Coincidentally, these are industries that have also seen a big increase in demand in the past two years. So, now is a good time to expand to meet that demand by making equipment, computer, machinery, and technology purchases.

Of course, if a taxpayer waits until next year or 2024, the same property can benefit from the depreciation bonus—at 80% or 60% of the acquisition value—but the taxpayer won't be able to fully benefit from bonus depreciation as much as making the purchase now.

## **How Can We Start the Process of Claiming this Deduction?**

Once the decision has been made, the process is pretty simple. The taxpayer should buy the property, record the asset and its full acquisition costs to the company financials, and place it in service prior to year-end. In reference to depreciation deductions, the property acquisition cost is the purchase price, less discounts if there were any provided by the seller, plus sales tax, delivery

charges, and installation fees.

## **Does Bonus Depreciation Make Sense for Your Business? Get Expert Guidance**

To make the most of your options, it could be a good idea to buy bonus depreciation-eligible property and put it in use before the end of 2022. Based on your unique situation and impending tax law changes, [BMF Advisors](#) can assist you in choosing the best course of action.