



# Bonus Depreciation Phaseout Update for Businesses

In 2017, the Tax Cuts and Jobs Act (“TCJA”) extended important bonus depreciation rules on qualified property that were set to expire at the end of the 2019 tax year.<sup>1</sup> These expanded write-offs have now begun to phase out.<sup>2</sup> Business taxpayers who understand the sunset provisions of these deductions will be better prepared to implement tax planning strategies over the next few years.

The TCJA rules were welcomed with open arms by business taxpayers in 2017 when they provided for 100% expensing of any qualified property placed in service after September 27, 2017. That maximum benefit, however, expired in 2022, and for tax years beginning after December 31, 2022, the 100% bonus depreciation deduction is phasing out 20% per year until it fully sunsets after the end of the 2026 calendar year. Accordingly, deductible amounts are 80% (2023), 60% (2024), 40% (2025), 20% (2026) and 0% (2027).<sup>3</sup>

For example, if a business places a qualified asset into service in 2024, it will be able to deduct only 60% of the asset’s cost under the bonus rules, not the full 100% that could have been deducted in 2022 or the 80% that could have been deducted in 2023. If that business were to place the same asset into service in 2027, it wouldn’t be able to take any bonus depreciation on the asset.

Qualified property for the purpose of bonus depreciation includes depreciable business assets with a recovery period of 20 years or less and certain other property.<sup>4</sup> The following are examples of qualified property eligible for bonus depreciation: equipment, machinery, furniture, computers, appliances, and qualified film, television or live theatrical productions.<sup>5</sup> Also, “qualified improvement property” is included as “qualified property” for purposes of bonus depreciation, meaning that many interior upgrades to buildings are eligible for accelerated cost recovery.<sup>6</sup>

As previously noted, the bonus depreciation rules apply to qualifying property, including used property, acquired and placed in service after September 27, 2017.<sup>7</sup>

It is important to note the difference between when assets are “placed in service” and when assets are “purchased,” because an asset is not eligible for the bonus depreciation deduction until it is placed in service. According to the IRS, an asset is not considered to be “placed in service” until it is “first placed in a condition or state of readiness and availability for a specifically assigned function.”<sup>8</sup>

Businesses looking to accelerate and/or maximize their bonus depreciation deduction benefit over the next few years may want to place any new assets into service in the earliest year possible and prior to the deadline so as not to potentially miss qualifying for the deduction at all.

For example, a machine purchased by a business in 2024 will be eligible for the 60% depreciation deduction if it is placed in service before the end of 2024. However, if the company waits until 2025 to place the asset in service, the asset would be eligible only for the 40% deduction that is allowed in the 2025 tax year.

Bonus depreciation is mandatory; however, any taxpayer that does not wish to take it in a given tax year can elect out. The election out must be made separately for each class of property (3-year, 5-year, 7-year, etc.) in the form of a statement attached to a timely filed return.<sup>9</sup> Any taxpayer who fails to elect out of bonus depreciation on its timely filed return or amended return and does not claim bonus depreciation is using an improper accounting method. In that case, the taxpayer needs to file Form 3115, Application for Change in Accounting Method, under the automatic change procedure and incorporate the additional bonus depreciation as an adjustment on its currently filed tax return.<sup>10</sup>

If the election out of bonus depreciation is filed, it generally cannot be revoked without IRS consent. However, a taxpayer who made an election out may revoke it by filing an amended return but only within six months (excluding extensions) of the original return’s due date. Once the six-month period has ended, the only way to revoke the election is to obtain an IRS letter ruling consenting to the revocation.<sup>11</sup>

The bonus depreciation rules are often extremely beneficial in the short run, as they can drastically reduce taxable income for the selected year by accelerating the depreciation of assets. Businesses should plan accordingly, as bonus depreciation will entirely phase out by the end of 2026 year unless Congress decides to extend it. Starting with the 2027 year, only certain businesses may be able to maintain some initial-year expensing using the rules of IRC Section 179. Section 179 rules, however, include certain dollar, investment and taxable income limits which make the deduction under Section 179 far less attractive than the current bonus depreciation allowances.<sup>12</sup>

#### AGATA ORZECZOWSKA

Senior Director  
+1 973.852.8103  
agata.orzechowska@fticonsulting.com

*The views expressed herein are those of the author(s) and not necessarily the views of FTI Consulting, Inc., its management, its subsidiaries, its affiliates, or its other professionals. FTI Consulting, Inc., including its subsidiaries and affiliates, is a consulting firm and is not a certified public accounting firm or a law firm.*

FTI Consulting is an independent global business advisory firm dedicated to helping organizations manage change, mitigate risk and resolve disputes: financial, legal, operational, political & regulatory, reputational and transactional. FTI Consulting professionals, located in all major business centers throughout the world, work closely with clients to anticipate, illuminate and overcome complex business challenges and opportunities. © 2024 FTI Consulting, Inc. All rights reserved. [fticonsulting.com](https://www.fticonsulting.com)

## Endnotes

- <sup>1</sup> Tax Cuts and Jobs Act, <https://www.congress.gov/bill/115th-congress/house-bill/1>.
- <sup>2</sup> Id.
- <sup>3</sup> Id.
- <sup>4</sup> Internal Revenue Code, [§168. Accelerated cost recovery system](#). (n.d.).
- <sup>5</sup> Id.
- <sup>6</sup> Id.
- <sup>7</sup> Tax Cuts and Jobs Act, <https://www.congress.gov/bill/115th-congress/house-bill/1>.
- <sup>8</sup> Treasury Regulation § 1.167(a)-11 Depreciation Based On Class Lives And Asset Depreciation Ranges For Property Placed In Service After December 31, 1970., [The Federal Register](#). Federal Register. (n.d.).
- <sup>9</sup> Treasury Regulation § 1.168(k)-1 Additional first year depreciation deduction. [The Federal Register](#). Federal Register. (n.d.-a).
- <sup>10</sup> Internal Revenue Service Revenue Procedure 2023-24, [Rev. Proc. 2023-24](#).
- <sup>11</sup> Treasury Regulation § 1.168(k)-2 Additional first year depreciation deduction for property acquired and placed in service after September 27, 2017. [The Federal Register](#). Federal Register. (n.d.-a).
- <sup>12</sup> Internal Revenue Code, [§179: Election to expense certain depreciable business assets](#). (n.d.).