

Re: CARES Act: Depreciation of Qualified Improvement Property

Dear Valued Client:

The Coronavirus Aid, Relief, and Economic Security (CARES) Act provides tax relief to individuals and businesses in an effort to support the economy. In addition to numerous other provisions that provide cashflow to businesses, the CARES Act includes a modification to the recovery period for qualified improvement property.

Under the CARES Act, a 15-year recovery period is retroactively assigned to qualified improvement property placed in service after December 31, 2017. Therefore, qualified improvement property may be depreciated over 15 years or, alternatively, qualifies for 100 percent bonus depreciation if all bonus requirements are met.

Qualified improvement property is broadly defined as an internal improvement to nonresidential real property but does not include improvements related to elevators and escalators, the internal structural framework, or an enlargement of the building. The improvement must be placed in service after the date the improved building is first placed in service. The improvement must be made by the taxpayer. Therefore, the 15-year recovery period and bonus depreciation does not apply to a taxpayer that purchases a building that includes qualified improvement property depreciated by the seller over 15 years.

Opportunity to Amend

As a result of the retroactive application of the reduced recovery period, if a taxpayer filed two or more returns using a 39-year recovery period for qualified improvement property placed in service after 2017 an incorrect accounting method was adopted and automatic consent to change to the correct method must be filed on Form 3115. Taxpayers who only filed one return using a 39-year recovery period (e.g., a calendar year taxpayer who has not filed a 2019 return) may file an amended return to correct the recovery period or may file Form 3115 with their current year return.

Generally, a taxpayer must elect out of bonus depreciation by the extended due date of the return for the tax year in which the property eligible for the bonus was placed in service. Some taxpayers may not want to claim 100 percent bonus depreciation on qualified improvement property that retroactively qualifies for the additional allowance. The IRS will presumably issue guidance allowing these taxpayers to make a late election out of bonus depreciation and to file an amended return or Form 3115, as applicable, based on a 15-year recovery period.

Contact Us

The reduced recovery period not only allows businesses to improve their cashflow by filing an amended return, but also encourages investment in further improvements to stimulate the economy. Please call our office with any questions on qualified improvement property or other provisions of the CARES Act. We are here to help you.

Sincerely,

The Huggins and Company Team