Qualified Improvement Property Now Eligible for Bonus Depreciation Under CARES Act

The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) provided a long anticipated technical correction for Qualified Improvement Property stemming from the 2017 Tax Cuts and Jobs Act (TCJA).

Pre-CARES Act

The TCJA eliminated pre-existing definitions for qualified leasehold improvement property, qualified restaurant property, and qualified retail improvement property and replaced those definitions with one category called qualified improvement property (QIP). Under the TCJA, QIP fell into the 39-year recovery period for nonresidential rental property, making QIP investments ineligible for 100% Bonus Depreciation.

QIP Technical Correction

The CARES Act provides a technical correction to the TCJA, designating QIP as 15-year property and eligible for 100% Bonus Depreciation. For alternative depreciative system (ADS) purposes, QIP is recovered over 20 years.

What You Should Do

Because of this technical correction (retroactive to January 1, 2018), taxpayers can file amended returns to claim bonus depreciation for 2018 and 2019 or file for a change of accounting method with Form 3115 to fix this error on their 2018, 2019, or 2020 tax return.

In addition to the QIP technical correction, the CARES Act also temporarily repeals the 80% income limitation for net operating loss deductions for years beginning before 2021. For losses arising in 2018, 2019, and 2020, a five-year carry-back is allowed (taxpayers can elect to forgo the carry-back). This could result in tax savings for taxpayers claiming additional depreciation deductions and potential refunds of taxes paid. Contact an Anders advisor to see if these situations make sense for you.

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