

Abstract: The Coronavirus Aid, Relief and Economic Security Act fixed a legislative glitch that prevented businesses from claiming 100% bonus depreciation for qualified improvement property. This brief article describes the situation and advises business owners to keep this tax break in mind.

With glitch fixed, consider business property upgrades

When the Tax Cuts and Jobs Act was passed in 2017, it contained an inadvertent drafting error by Congress. The error made it so that any qualified improvement property (QIP) placed in service after December 31, 2017, wasn't considered eligible for 100% bonus depreciation. This typically includes upgrades to retail, restaurant and leasehold property.

As a result, businesses that owned the eligible property couldn't take advantage of the additional tax deduction of 100% of the cost of qualifying upgrades. The problem became commonly known as the "retail glitch."

Fortunately, when drafting the Coronavirus Aid, Relief and Economic Security Act, Congress fixed the glitch. Most businesses can now claim 100% bonus depreciation for QIP, assuming all applicable rules are followed. Better yet, the correction is retroactive to any QIP placed in service after December 31, 2017. (Improvements related to a building's enlargement, elevator or escalator, or internal structural framework don't qualify.)

Because of the slowdown in the U.S. economy, your business (like so many others) may not be in a financial position to undertake a QIP project right away. However, you may have made eligible improvements earlier this year or in earlier tax years after December 31, 2017. As economic conditions improve, factor this tax break into your considerations for making future property improvements.

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