

Qualified Improvement Property

With the passing of the CARES Act an awaited technical correction was made to the allowable depreciation method for qualified improvement property (QIP). QIP refers to most improvements made to a property after the building was originally placed in service. These improvements are now (and retroactively) eligible for a 15 year depreciable life as well as 100% bonus depreciation.

This correction applies to improvements placed into service in 2018 and 2019. If this applies to you, you fall into 1 of 3 categories;

- Improvements were placed in service in 2018 and you;
 1. Filed your 2018 and 2019 tax returns, or;
 2. Filed your 2018 but not 2019 tax return
- Improvements were placed in service in 2019 and you;
 3. Filed your 2019 tax return

For group 1 , we have 1 option, filing a change in accounting method (Form 3115) with your next (2020) tax return. This will allow us to apply the now allowable 15 year life. By doing so, you can to take 100% bonus depreciation on your QIP placed in service in 2018 or 2019 when filing your next tax return. This equates to expensing the remaining basis in the QIP.

For group 2 there are 2 options; first option, amend your 2018 return and then file your 2019 return taking into account the changes made to your 2018 depreciation. The second option is to file a Form 3115 with your 2019 tax return.

For group 3, you have the same options as group 2 except everything applies 1 year later; first option, amend your 2019 return and when we file your 2020 return we will take into account the changes made to your 2019 depreciation. The second option is to file a Form 3115 with your 2020 tax return.

If you fall into group 2 or group 3, we have some tax planning to do. We will help you to determine which route, amending your most recently filed tax return or filing a Form 3115 with your next one will help you to yield the best tax results for you and your business partners.

If you have any questions or want to hear some very in depth tax-speak about this, please give us a call.

Charlie Meyerson, CPA