

# New Bonus Depreciation Rules for Qualified Improvement Property

Michael Dunlap, CPA  
Principal - Tax Services

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The CARES Act, recent legislation passed by Congress to address the economic impact of COVID-19, now provides an opportunity for business owners to deduct additional depreciation expense for qualified improvement property (QIP).

QIP generally includes any interior non-structural improvements made to a nonresidential building placed in service by a taxpayer **after** the building was originally placed in service. Examples of this include remodeling interior office space, moving walls, and other renovations. Under the 2018 tax law changes resulting from the Tax Cuts & Jobs Act, such improvements were inadvertently assigned a 39-year life and, as a result, were not eligible for bonus depreciation. This was an unfortunate drafting error in the legislation, as taxpayers had expected QIP to be considered 15-year property and thus eligible for bonus depreciation.

The CARES Act corrected this drafting error by allowing for a shorter 15-year life to apply to QIP, as well as qualifying it for bonus depreciation. As a result, any taxpayer that placed this type of property in service during 2018 or 2019 may correct the recovery period and claim bonus depreciation if otherwise eligible. These additional depreciation deductions can be claimed by filing an amended tax return for the impacted year(s) or by filing Form 3115 – *Application for Change in Accounting Method*. The ability to take bonus depreciation on QIP for these years may result in significant additional depreciation deductions which, in turn, may generate tax refunds.

Please contact our office today to schedule a conversation with one of our experienced tax advisors regarding how these tax law changes may benefit your business.

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