Insights

CARES Act Provides 100% Bonus Depreciation for Qualified Improvement Property

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On March 27, 2020, President Trump signed the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") to provide economic benefits to small businesses in response to the novel Coronavirus (COVID-19) pandemic. In addition to the widely publicized Economic Injury Disaster Loan and Paycheck Protection Program, the CARES Act provides long sought-after tax relief for Qualified Improvement Property ("QIP") due to an oversight in the passing of the Tax Cuts and Jobs Act of 2017 ("TCJA").

The technical correction addressed in Section 2307 of the CARES Act amends the federal tax code to allow QIP to be eligible for 100% bonus depreciation. QIP includes any interior improvement of a nonresidential property made by the taxpayer after the building is in service. QIP does not include improvements made to enlarge the building, elevators or escalators, or any internal structural framework. This amendment applies retroactively and may impact tax returns for 2018 and those already filed for 2019.

Prior to the QIP amendment in the CARES Act, QIP was subject to depreciation over a period of 39 years, a change that was made in the TCJA. Now, 100% of the cost of any interior improvements that are considered QIP will be applicable for a deduction immediately. The deduction is not limited to property owners only but includes the improvements made by tenants. Tenants, including those in the restaurant, retail, and hospitality industries, can deduct for improvements such as drywall or lighting or for the replacement of flooring, electrical or plumbing. Restaurant and retail tenants that invest heavily in their spaces through expensive build-outs and remodels could see the most benefit from this amendment. Moreover, given the retroactive nature, eligible businesses may be able to seek a refund from the 2018 tax year for any QIP deduction if the property where the improvements were made was acquired and placed in service after September 27, 2017.

In a time when small businesses, especially those in the retail and the restaurant industry, are hurting, this change could provide substantial tax relief. To capitalize on this savings opportunity, businesses should first determine if they are eligible to amend their 2018 tax returns and, if already filed, their 2019 tax returns. Second, businesses should take advantage of the full cost write-off for 2020. Under the TCJA, this 100% bonus depreciation is set to start phasing out in 2023 and expire in 2027.

For more information regarding QIP or how Section 2307 of the CARES Act may impact your business, contact **Christopher Engel** or any member of **Krieg DeVault's Real Estate Team**.