Bonus Depreciation & Strategies with The New Tax Law
by Annie Fischer

The point of depreciation is to spread out the cost of an asset over the life of the asset, rather than take the full cost of the asset as an expense in the first year. Bonus depreciation is a kind of accelerated depreciation.

The Tax Cuts and Jobs Act increased the bonus depreciation percentage from 50% to 100% for qualified property acquired and placed in service before January 1, 2023 on not only new assets, but also used assets. In the year qualified property is purchased and put into use, you can deduct 100% of the cost of the property or take regular depreciation, which is always available. Property that has a recovery period of 20 years or less is generally tangible, personal property such as vehicles, office equipment, heavy equipment, machinery and farm buildings. This does not include land.

A new building or a building that you purchased is eligible for bonus depreciation, but land is not. One tax strategy with using depreciation on land purchased would allow a farmer or rancher to allocate the cost of buildings and improvements like fences, wells, and windmills on land purchased and elect bonus depreciation on those buildings and improvements.

In a year that you might have large capital gains from, for example, the sale of land, the sale of raised cows, gains on investments or inheritance, and are going to bump up into the next bracket (capital gains are 0% as long as you stay in the low bracket), you could put up a farm building, buy a farm building, or purchase new or used equipment and take bonus depreciation to offset your capital gains. You could stay in the low bracket and pay 0% those capital gains.

There are many strategies with depreciation depending on your tax situation. Let us help you with your tax planning sooner than later to lower your tax bill.

Thanks,

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