Understanding the Income Tax Benefits from Tax Cuts and Jobs Act

By **Cost Segregation Services, Inc. (CSSI)**

In December 2017, President Trump signed into law the Tax Cuts and Jobs Act (TCJA), the largest tax overhaul in the United States in over 30 years. One immediately notes that it made small reductions to income tax rates for most individual tax brackets and significantly reduced the income tax rate for corporations. The act has over 1,400 pages, and thankfully, the professional staff at Cost Segregation Services, Inc. (CSSI) studied it and mined the salient provisions that primarily impact our services for owners of depreciable real property.

Here is a summary of the most important changes affecting building owners.

1. **Bonus Depreciation extended, expanded, and increased to 100%**
    - The 50% bonus depreciation rate is increased to 100% for qualified property acquired or built after September 27, 2017.
    - Bonus depreciation has been expanded to apply to both newly constructed buildings and used property purchased and acquired after September 27, 2017. Bonus eligible property must have a depreciable life of 20 years or less.
    - Qualified Leasehold Improvements, Qualified Retail Improvements, and Qualified Restaurant Property are all replaced with Qualified Improvement Property (QIP).
    - Structural items like interior supporting framing, escalators, and elevators are not included in QIP. The improvements must have begun at least one day after the building was placed in service for its intended use.
    - Congress's intent for QIP was to make it eligible for Bonus Depreciation but failed to assign it a 15-year recovery period, thus

delaying this valuable benefit. Although not eligible for bonus, these assets do qualify for Section 179 discussed later.

- Items removed, discarded, or abandoned have value that should be removed from the depreciation schedule and identified as a partial asset disposition (PAD). This must be done in the same tax year as the removal, or the taxpayer loses the ability to capture the write-down.
- Bonus Depreciation is available for items with depreciable lives of 20 years or less. A cost segregation study can identify all your building components with a 20-year life or less, which allows for the maximum bonus depreciation

2. 1031 Exchanges continue but only for real property

- 1031 Exchanges continue to be allowed for Real Property but are no longer allowed for tangible personal property acquired after December 31, 2017. Taxpayers that have applied Cost Segregation to a building in the past will not be able to exchange Section 1245 property in a 1031 Exchange. However, a cost segregation study on the new building's basis should minimize the effects of recapture.

3. Alternative minimum tax for C corporations is abolished

- The final bill also eliminates the corporate alternative minimum tax.

4. Expansion of Section 179 expensing

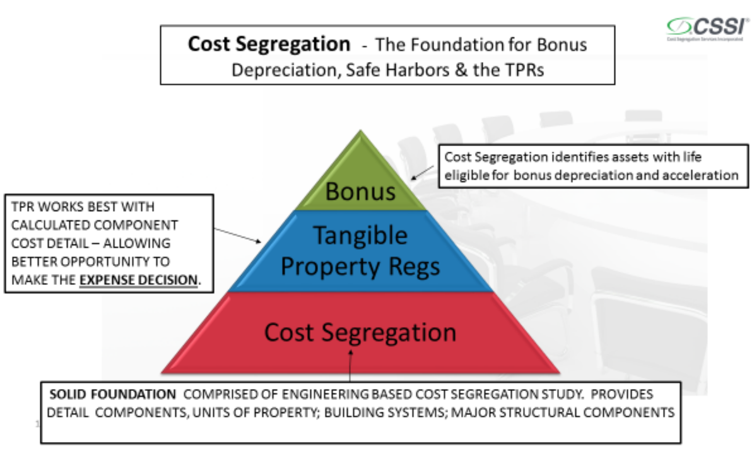
- Section 179 expense limitations doubled from $500,000 to $1 million while the phase-out limitation will be increased from $2 million to $2.5 million and adjusted annually for inflation. The law expands the definition of qualifying property eligible for Section 179 to include roofs, HVAC, fire protection & alarm systems, security systems, and QIP if these improvements are made to non-residential real property and begun after the building was placed in service for its intended use. Section 179 still includes tangible personal property such as furniture and appliances (FF&E). Section 179 assets will recapture at personal tax rates when the building is sold.
- Section 179 is also expanded to include the availability of the expensing election to depreciable tangible personal property used in connection with furnishing lodging—e.g., beds and other furniture for use in hotels and apartment buildings.

- Section 179 expensing should be used for commercial property only after RABI criteria under the 2014 Tangible Property Regulations have been evaluated and found non-applicable.

5. **Modified tax rates**
   - The 2018 Tax Code will provide a reduction of the highest Corporate Tax Rate (C corporations) to 21% for the Tax Years beginning on or after December 31, 2017.
   - There are slightly modified tax rates for individuals, with the top bracket decreasing from 39.6% to 37.0% and the standard deduction doubled.

6. **20% income reduction for pass-through income**
   - Partnerships, S corporations, and LLCs with income less than $157.5k for individuals and $315k for married filing jointly are eligible without restrictions. Personal service corporations such as medical professionals, accounting firms, and attorneys are eligible but are subject to phase out and restrictions at higher incomes.

7. **Carrybacks and net operating loss restrictions**
   - The two-year carry back of net operating losses is no longer allowed after 12/31/2017. An NOL can be carried forward indefinitely up to a limit of 80% of the tax payer's income in any year.



Never have the benefits been greater due to accelerated depreciation from cost segregation, inherent expensing opportunities with the 2014 Tangible Property Regulations, and 100% Bonus Depreciation and enhanced Section 179 from the Tax Cuts and Jobs Act. The services of CSSI as a quantification company are more valuable than ever. Please ask for your free quantified analysis to see if your or your clients' properties qualify.

CSSI, costsegregationconsulting.com has provided compliant engineering–based cost segregation studies for U.S. property owners since 2003. CSSI has completed more than 20,000 studies for various types of properties in all 50 states. As an independent consultant for CSSI, Greg Perkins (256-683-3397) is appreciative and excited about the opportunity to deliver cash flow benefits to owners of depreciable real property.