Depreciation-related breaks offer 2016 tax savings on business real estate

Commercial buildings and improvements generally are depreciated over 39 years, which essentially means you can deduct a portion of the cost every year over the depreciation period. (Land isn't depreciable.) But enhanced tax breaks that allow deductions to be taken more quickly are available for certain real estate investments:

1. 50% bonus depreciation. This additional first-year depreciation allowance is available for qualified improvement property. The break expired December 31, 2014, but has been extended through 2019. However, it will drop to 40% for 2018 and 30% for 2019. On the plus side, beginning in 2016, the qualified improvement property doesn't have to be leased.

2. Section 179 expensing. This election to deduct under Sec. 179 (rather than depreciate over a number of years) qualified leasehold-improvement, restaurant and retail-improvement property expired December 31, 2014, but has been made permanent.

Beginning in 2016, the full Sec. 179 expensing limit of $500,000 can be applied to these investments. (Before 2016, only $250,000 of the expensing election limit, which also is available for tangible personal property and certain other assets, could be applied to leasehold-improvement, restaurant and retail-improvement property.)

The expensing limit is subject to a dollar-for-dollar phaseout if your qualified asset purchases for 2016 exceed $2,010,000. In other words, if, say, your qualified asset purchases for the year are $2,110,000, your expensing limit would be reduced by $100,000 (to $400,000).

Both the expensing limit and the purchase limit are now adjusted annually for inflation.

3. Accelerated depreciation. This break allows a shortened recovery period of 15 years for qualified leasehold-improvement, restaurant and retail-improvement property. It expired December 31, 2014, but has been made permanent.

Although these enhanced depreciation-related breaks may offer substantial savings on your 2016 tax bill, it's possible they won't prove beneficial over the long term. Taking these deductions now means forgoing deductions that could otherwise be taken later, over a period of years under normal depreciation schedules. In some situations — such as if in the future your business could be in a higher tax bracket or tax rates go up — the normal depreciation deductions could be more valuable.

Please contact Ceschini, CPAs at (631) 474-9400 for more information about this topic and other tax and business developments – such as new IRS regulations and court decisions.