Here is an explanation to some of the depreciation provisions of the law.

Enhanced Expensing Made Permanent

Under **Code Sec. 179** , a taxpayer, other than an estate, a trust, or certain non-corporate lessors, may elect to deduct as an expense, rather than to depreciate, up to a specified amount of the cost of new or used tangible personal property placed in service during the tax year in the taxpayer's trade or business.

The maximum annual expensing amount generally is reduced dollar-for-dollar by the amount of **Code Sec. 179** property placed in service during the tax year in excess of a specified investment ceiling.

Amounts ineligible for expensing due to excess investments in expensing-eligible property can't be carried forward and expensed in a subsequent year. Rather, they can only be recovered through depreciation. The amount eligible to be expensed for a tax year can't exceed the taxable income derived from the taxpayer's active conduct of a trade or business. And any amount that is not allowed as a deduction because of the taxable income limitation may be carried forward to succeeding tax years.

For tax years beginning in 2014: (1) the dollar limitation on the expensing deduction was $500,000; and (2) the investment-based reduction in the dollar limitation began to take effect when property placed in service in the tax year exceeds $2 million (the investment ceiling). Under the 2014 limits, the **Code Sec. 179** deduction didn't phase out completely until the cost of expensing-eligible property exceeded $2.5 million ($2 million (investment ceiling) + $500,000 (dollar limit)).

Under pre-Act law, for tax years beginning after 2014, the maximum expensing limit dropped to $25,000, and the investment ceiling dropped to $200,000. Thus, the **Code Sec. 179** deduction phased out completely when the cost of expensing-eligible property exceeded $225,000 ($200,000 (investment ceiling) + $25,000 (dollar limit)).

In general, under pre-Act law, property is eligible for **Code Sec. 179** expensing if it is:

. . . tangible property that's **Code Sec. 1245** property (generally, machinery and equipment),depreciated under the MACRS rules of **Code Sec. 168** , regardless of its depreciation recovery period;

. . . for any tax year beginning in 2010 through 2014, up to $250,000 of qualified real property-qualified leasehold improvement property, qualified restaurant property, and qualified retail improvement property-(under a carryover limitation for qualifying real property no portion of the disallowed expensing could be carried to a tax year beginning after 2014); or

. . . off-the-shelf computer software, but only if placed in service in a tax year beginning before 2015.

Under pre-Act law, for tax years beginning before 2015, an expensing election or specification of property to be expensed may be revoked without IRS's consent, but, if revoked, can't be reelected.

However, for tax years beginning after Dec. 31, 2014, the expensing election, and any specification made in it, was to have been revocable only with IRS's consent.

New law. The Act makes the following changes to the **Code Sec. 179** expensing election:
• The $500,000 expensing limitation and $2 million phase-out amounts are retroactively extended and made permanent. (**Code Sec. 179(b)** , as amended by Act Sec. 124(a))
• For any tax year beginning after 2015, both the $500,000 and $2 million limits are indexed for inflation. (**Code Sec. 179(b)(6)** , as amended by Act Sec. 124(f))
• The rule that allows expensing for computer software is retroactively extended and made permanent. (**Code Sec. 179(d)(1)(A)(ii)** , as amended by Act Sec. 124(b))
• For tax years beginning after Dec. 31, 2014, an expensing election or specification of property to be expensed may be revoked without IRS's consent. (**Code Sec. 179(c)(2)** , as amended by Act Sec. 124(d)) Thus, the ability to revoke a **Code Sec. 179** election without IRS consent is made permanent.
• Qualified real property is eligible to be expensed for tax years beginning before 2016. (**Code Sec. 179(f)(1)** , as amended by Act Sec. 124(c)(1)) No portion of disallowed expensing may be carried to a tax year beginning after 2015. (**Code Sec. 179(f)(4)** , as amended by Act Sec.
124(c)(1))
• For tax years beginning after Dec. 31, 2015, expensing of qualified real property is made permanent without a carryover limitation (**Code Sec. 179(f)(1)** and **Code Sec. 179(f)(4)** , as amended by Act Sec. 124(c)(2)) and the $250,000 expensing limitation with respect to qualifying real property is eliminated. (**Code Sec. 179(f)** , as amended by Act Sec. 124(c))
• For tax years beginning after Dec. 31, 2015, air conditioning and heating units are eligible for expensing. (**Code Sec. 179(d)(1)** , as amended by Act Sec. 124(e))

15-Year Writeoff for Qualified Leasehold and Retail Improvements and Restaurant Property Made Permanent

Qualified leasehold improvement property, qualified restaurant property and qualified retail improvement property that was placed in service before Jan. 1, 2015 was included in the 15-year MACRS class for depreciation purposes-that is, such property was depreciated over 15 years under MACRS.

Under pre-Act law, the 15-year writeoff didn't apply to property placed in service after Dec. 31, 2014.

New law. Effective for property placed in service after Dec. 31, 2014, the Act retroactively extends and makes permanent the inclusion of qualified leasehold improvement property, qualified restaurant property and qualified retail improvement property in the 15-year MACRS class. (**Code Sec. 168(e)(3)(E)** , as amended by Act Sec. 123)

Bonus First-Year Depreciation Extended Through 2019

Under pre-Act law, **Code Sec. 168(k)** generally allows an additional first-year depreciation deduction (also called bonus first-year depreciation) equal to 50% of the adjusted basis of qualified property acquired and placed in service after Dec. 31, 2011, and before Jan. 1, 2015 (before Jan. 1, 2016 for certain longer-lived and transportation property). The additional first-year depreciation deduction is allowed for both regular tax and alternative minimum tax (AMT) purposes, but is not allowed for purposes of computing earnings and profits. The basis of the property and the depreciation allowances in the year of purchase and later years are appropriately adjusted to reflect the additional first-year depreciation deduction. A taxpayer may elect out of additional first-year depreciation for any class of property for any tax year.

In general, an asset qualifies for the bonus depreciation allowance if:

. . . It falls into one of the following categories: property to which the modified accelerated cost recovery system (MACRS) rules apply with a recovery period of 20 years or less; computer software other than computer software covered by **Code Sec. 197** ; qualified leasehold improvement property; or certain water utility property.

. . . It is placed in service before Jan. 1, 2015. (Certain long-production-period property and certain transportation property may be placed in service before Jan. 1, 2016)

. . . Its original use commences with the taxpayer. Original use is the first use to which the property is put, whether or not that use corresponds to the taxpayer's use of the property.

New law. The Act extends bonus depreciation for qualified property acquired and placed in service during 2015 through 2019 (through 2020 for certain longer-lived and transportation property). Eligible taxpayers will be able to claim:
(1) a 50% bonus depreciation allowance for qualified property placed in service in 2015 through 2017 ;
(2) a 40% bonus depreciation allowance for qualified property placed in service in 2018; and
(3) a 30% bonus depreciation allowance for qualified property placed in service in 2019. (**Code Sec. 168(k)** , as amended by Act Sec. 143; Joint Committee Explanation)

The percentages apply to certain longer-lived and transportation property placed in service one year later than shown in the list above. (Joint Committee Explanation)

Related changes. The Act also provides that:
• After 2015, additional first-year depreciation is allowed for qualified improvement property without regard to whether the improvements are property subject to a lease, and there is no requirement that the improvement must be placed in service more than three years after the date the building was first placed in service. (**Code Sec. 168(k)(3)** as amended by Act Sec. 143(b)(1); Joint Committee Explanation)
• For plants planted or grafted after Dec. 31, 2015 and before Jan. 1, 2020, 50% bonus depreciation is allowed for certain trees, vines, and plants bearing fruit or nuts when planted or grafted, rather than when placed in service. (**Code Sec. 168(k)(5)** , as amended by Act Sec. 143(b)(4); Official Summary)
• The special rule for the allocation of bonus depreciation to a long-term contract is extended for five years to property placed in service before Jan. 1, 2020 (Jan. 1, 2021, in the case of certain longer-lived and transportation property). (**Code Sec. 460(c)(6)(B)** , as amended by Act Sec. 143)

Enhanced First-Year Depreciation Cap for Autos and Trucks Extended Through 2019

Under the luxury auto dollar limits of **Code Sec. 280F** , depreciation deductions (including **Code Sec. 179** expensing) that can be claimed for passenger autos are subject to dollar limits that are annually adjusted for inflation. For passenger automobiles placed in service in 2015, the adjusted first-year limit is $3,160. For light trucks or vans, the adjusted first-year limit is $3,460. Light trucks or vans are passenger automobiles built on a truck chassis, including minivans and sport-utility vehicles (SUVs) built on a truck chassis that are subject to the **Code Sec. 280F** limits because they are rated at 6,000 points gross (loaded) vehicle weight or less.

The applicable first-year depreciation limit is increased by $8,000 (not indexed for inflation) for any passenger automobile that is "qualified property" under the bonus depreciation rules of **Code Sec. 168(k)** and which isn't subject to a taxpayer election to decline bonus depreciation.

Under pre-Act law, qualified property didn't include property placed in service after Dec. 31, 2014 (except for certain aircraft and certain long-production-period property that had, instead, a Dec. 31, 2015 placed-in-service deadline). Thus, under pre-Act law, the $8,000 boost in first-year depreciation allowances wasn't available for new cars and trucks purchased after 2014.

New law. For property placed in service after Dec. 31, 2015 and before Jan. 1, 2018, the Act provides that the **Code Sec. 280F** limitation for a passenger auto or light truck or van that is qualified property is increased by $8,000. For an auto or light truck or van placed in service in 2018, the **Code Sec. 280F** limitation is increased by $6,400. For an auto or light truck or van placed in service in 2019, the **Code Sec. 280F** limitation is increased by $4,800. (**Code Sec. 168(k)(2)** , as amended by Act Sec. 143(b)(1))

Choice to Forego Bonus Depreciation and Claim Credits Instead Is Extended

Code Sec. 168(k)(4) generally permits a corporation to increase the alternative minimum tax (AMT) credit limitation by the bonus depreciation amount with respect to certain property placed in service after Dec. 31, 2010 and before Jan. 1, 2015 (Jan. 1, 2016 in the case of certain longer-lived and transportation property) if it forgoes bonus depreciation on that property.

Under pre-Act law, the above provision didn't apply to such property placed in service after Dec. 31, 2014 (Dec. 31, 2015 in the case of certain longer-lived and transportation property).

New law. For property placed in service during 2015, the Act allows taxpayers to elect to accelerate the use of AMT credits in lieu of bonus depreciation under special rules. Beginning in 2016, the Act modifies the AMT rules by increasing the amount of unused AMT credits that may be claimed in lieu of bonus depreciation. (**Code Sec. 168(k)(4)** , as amended by Act Sec. 143(b)(2))

Expensing Election for Costs of Film and TV Production Extended Through 2016 and Expanded

Taxpayers may elect to expense production costs of qualified film and television (TV) productions in the U.S. Expensing doesn't apply to the part of the cost of any qualifying film or TV production that exceeded $15 million for each qualifying production. The limit is $20 million if production expenses were "significantly incurred" in areas (1) eligible for designation as a low-income community or (2) eligible for designation by the Delta Regional Authority (a federal-state partnership covering parts of certain states) as a distressed county or isolated area of distress.

Under pre-Act law, these rules didn't apply to qualified film and TV productions beginning after Dec. 31, 2014.

New law. The Act retroactively extends for two years the expensing election for costs of film and TV production for productions beginning before Jan. 1, 2017. (**Code Sec. 181(f)** , as modified by Act Sec. 169(a)) For productions beginning after Dec. 31, 2015, the expensing election is expanded to also apply to any "qualified live theatrical production," which is defined as a live staged production of a play (with or without music) which is derived from a written book or script and is produced or presented by a commercial entity in any venue which has an audience capacity of not more than 3,000, or a series of venues, the majority of which have an audience capacity of not more than 3,000. In addition, qualified live theatrical productions include any live staged production which is produced or presented by a taxable entity no more than 10 weeks annually in any venue which has an audience capacity of not more than 6,500. (**Code Sec. 181** , as modified by Act Sec. 169(b))

7-Year Writeoff for Motorsport Racing Track Facilities Extended Through 2016

A short 7-year cost recovery period applies to property used for land improvement and support facilities at motorsports entertainment complexes.

Under pre-Act law, the short writeoff period only applied for property placed in service on or before Dec. 31, 2014.

New law. The Act retroactively extends for two years the 7-year straight line cost recovery period for motorsports entertainment complexes. The quick writeoff applies to qualifying motorsports entertainment complexes placed in service before Jan. 1, 2017. (**Code Sec. 168(i)(15)(D)** , as amended by Act Sec. 166(a))

Miscellaneous Provisions Extended Through 2016

In addition to the above, The Act retroactively extends the following provisions for two years:

. . . Classification of certain race horses as 3-year property, for horses placed in service before Jan. 1, 2017 (regardless of age when placed in service). (**Code Sec. 168** , as modified by Act Sec. 165(a))

. . . Accelerated depreciation for business property on an Indian reservation, for property placed in service before Jan. 1, 2017. (**Code Sec. 168(j)** , as modified by Act Sec. 167(a))
For tax years beginning after Dec. 31, 2015, taxpayers can make an irrevocable election out of these accelerated depreciation rules for any class of property. (**Code Sec. 168(j)(8)** , as amended by Act Sec. 167(b))

. . . Election to treat 50% of the cost of any qualified mine safety equipment as an expense in the tax year in which the equipment is placed in service, for property placed in service before Jan. 1, 2017. (**Code Sec. 179E** , as modified by Act Sec. 163(a))