Analysis of 27.5-Year Property and 100% Bonus Depreciation for Residential Rental Property

The document, "The One, Big, Beautiful Bill," outlines tax provisions affecting depreciation, particularly through Sec. 111001 and Sec. 111101, which are relevant to your questions about 27.5-year property (typically residential rental property) and whether 100% bonus depreciation applies to it. Below is a concise analysis addressing your queries.

Is 27.5-Year Property Affected by This New Bill?

27.5-year property refers to residential rental property (e.g., apartment buildings, single-family rentals) depreciated over 27.5 years under the Modified Accelerated Cost Recovery System (MACRS). The bill's provisions impacting depreciation are:

- **Sec. 111001. Extension of Special Depreciation Allowance for Certain Property**
    - Provision: Permanently allows 100% bonus depreciation for qualified property acquired and placed in service on or after January 20, 2025.
    - Current Law Context: Qualified property under IRC Section 168(k) typically includes tangible personal property and certain improvements with a recovery period of 20 years or less (e.g., machinery, equipment, land improvements). Residential rental property (27.5-year recovery period) is generally excluded from bonus depreciation unless specific components are reclassified.
    - **Impact on 27.5-Year Property:**
        - The provision does not explicitly extend 100% bonus depreciation to 27.5-year property as a whole. Residential rental property itself remains subject to the 27.5-year straight-line depreciation schedule.
        - However, cost segregation can reclassify components of residential rental property (e.g., carpeting, lighting, landscaping) as 5-, 7-, or 15-year property, which would qualify for 100% bonus depreciation under this provision.
    - Conclusion: 27.5-year property is not directly affected, but components reclassified via cost segregation are eligible for 100% bonus depreciation.
- **Sec. 111101. Special Depreciation Allowance for Qualified Production Property**
    - Provision: Allows 100% expensing for qualified production property (e.g., factories, manufacturing facilities) placed in service in the U.S., with construction starting between 2025 and 2030 and placed in service by 2034.
    - Relevance: This provision applies to nonresidential real property used in manufacturing or production, not residential rental property. Residential rental property (27.5-year) is explicitly excluded from this category.
    - Impact: No effect on 27.5-year property, as it does not qualify as production property.

Summary: The bill does not change the 27.5-year depreciation schedule for residential rental property. However, components of such property reclassified as shorter-lived assets (5, 7, or 15 years) through cost segregation can benefit from 100% bonus depreciation under Sec. 111001.

Is There 100% Bonus Depreciation for Residential Rental Property, or Is It Excluded?

- **Exclusion of Residential Rental Property:**
  - Under Sec. 111001, 100% bonus depreciation applies to qualified property as defined in IRC Section 168(k). This typically excludes real property with a recovery period greater than 20 years, such as residential rental property (27.5 years) and nonresidential real property (39 years), unless specific exceptions apply.
  - The document does not indicate any expansion of bonus depreciation to include 27.5-year residential rental property as a whole. Therefore, the building structure and other 27.5-year components remain ineligible for 100% bonus depreciation.
- **Cost Segregation Opportunity:**
  - While the residential rental property itself is excluded, a cost segregation study can identify components that qualify as personal property (5 or 7 years) or land improvements (15 years), such as:
    - Fixtures (e.g., lighting, signage)
    - Flooring (e.g., carpet, vinyl)
    - Landscaping or site improvements (e.g., sidewalks, fencing)
    - Certain mechanical systems (e.g., dedicated HVAC units)
  - These reclassified components are considered qualified property and are eligible for 100% bonus depreciation under Sec. 111001, allowing immediate expensing for the year placed in service (post-January 20, 2025).
- **Other Provisions:**
  - Sec. 111109 (Low-Income Housing Credit) enhances the LIHTC program, which often applies to residential rental properties. While this improves tax credits for qualifying projects, it does not affect depreciation rules or extend bonus depreciation to 27.5-year property.
  - No other provisions in the document suggest bonus depreciation for residential rental property.

Summary: Residential rental property (27.5-year property) is excluded from 100% bonus depreciation under the bill. However, components reclassified as 5-, 7-, or 15-year property through cost segregation qualify for 100% bonus depreciation under Sec. 111001.