



TaxNewsFlash

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Rev. Proc. 2019-08: “Qualified real property” expensing under section 179, alternative depreciation under section 168

The IRS today released an advance version of Rev. Proc. 2019-08 as guidance concerning expense deductions and depreciation measures related to real property—measures that were enacted by the new U.S. tax law (Pub. L. No. 115-97) that is also referred to as the “Tax Cuts and Jobs Act” (TCJA).

The new tax law amended:

- Section 179 by modifying the definition of “qualified real property” that may be eligible as section 179 property under section 179(d)(1)
- Section 168 by (1) requiring certain property held by an electing real property trade or business (defined by section 163(j)(7)(B)) to be depreciated under the alternative depreciation system in section 168(g) and (2) reducing the recovery period under the alternative depreciation system from 40 to 30 years for residential rental property
- Section 168 by requiring certain property held by an electing farming business (defined by section 163(j)(7)(C)), to be depreciated under the alternative depreciation system

Rev. Proc. 2019-08 [PDF 70 KB] provides guidance concerning these tax law changes.

As explained in a related IRS release—**IR-2018-257**—Rev. Proc. 2019-08 provides guidance on deducting expenses under section 179(a) and on deducting depreciation under section 168(g), generally for tax years beginning after 2017, as follows:

- Section 179 allows taxpayers to deduct the cost of certain property as an expense when the property is placed in service. For tax years beginning after 2017, the maximum amount of the expense deduction under section 179 was increased from \$500,000 to \$1 million. The phase-out limit increased from \$2 million to \$2.5 million. These amounts are indexed for inflation for tax years beginning after 2018. The deduction under section 179 applies to tangible personal property—such as machinery and equipment purchased for use in a trade or business—and if the taxpayer elects, qualified real property. The new tax law amended the definition of qualified real property to mean qualified improvement property and some improvements to nonresidential real property—including roofs; heating, ventilation and air-conditioning property; fire protection and alarm systems; and security systems. Today's revenue procedure explains how taxpayers can elect to treat qualified real property as section 179 property.
- The category of businesses that must use the alternative depreciation system (ADS) under section 168(g) has been expanded. A farming business can elect out of the interest deduction limit of section 163(j). If it does, the business must use the ADS for property with a recovery period of 10 years or more. A real property trade or business can also elect out of the section 163(j) limit. If it does, the business must use the ADS for nonresidential real property, residential rental property, and qualified improvement property. Today's revenue procedure explains how electing real property trades or businesses or farming businesses change to the ADS for property placed in service before 2018, and provides that this is not a change in accounting method.
- The ADS recovery period of residential rental property has been revised, so that for property placed in service after 2017, the recovery period is 30 years. Previously, it was 40 years. Rev. Proc. 2019-08 provides an optional depreciation table for residential rental property depreciated under the ADS with a 30-year recovery period.

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