Qualified Improvement Property

Many restauranteurs have and will continue to reconfigure restaurant space, kitchens, lobby's and entryways to conform with COVID-19 social distancing and safety guidelines. These investments, albeit necessary can be costly. Fortunately, the CARES Act includes a retroactive correction to the legal language of the Tax Cuts and Jobs Act (TCJA). The correction allows business owners to depreciate this qualified improvement property (QIP), that has been placed in service after the TCJA became law, in a much quicker pace.

Specifically, the correction allows 100% first-year bonus depreciation for QIP that's placed in service in 2018 through 2022. That's because QIP placed in service after 2017 is now eligible for a 15-year cost recovery period instead of a 39-year cost recovery period.

QIP is generally defined as any improvement to an interior portion of a nonresidential building that's placed in service after the date the building was first placed in service.

QIP includes the installation or replacement of drywall, ceilings, interior doors, fire protection, mechanical electrical and plumbing, and other items.

However, QIP does *not* include any expenditures attributable to:

- The enlargement of the building,
- Any elevator or escalator, or
- The building's internal structural framework.

If you have performed major reinvestment or additions to your building, a cost segregation study would be highly advantageous for you.

If your business will be unprofitable this year due to the COVID-19 crisis, deductions for 100% first-year bonus depreciation can create or increase a net operating loss (NOL) for 2020.

Some businesses that used a 39-year recovery period for QIP may instead opt to depreciate QIP over 15 years rather than claiming 100% first-year bonus depreciation. This could be a smart move if, for example, you expect tax rates to be higher in the future or if your business operates as a pass-through entity (such as a partnership, limited liability company or S corporation) and taking 100% bonus depreciation will cause you to miss out or reduce the deduction for qualified business income (QBI). Your tax advisor can advise you about the pros and cons of claiming bonus depreciation vs. depreciating QIP over 15 years.