Contact: August 19, 2019

Ryan C. Sheppard, CPA, CFF
Partner
Knight Rolleri Sheppard CPAS, LLP
rcs@krscpasllp.com

Q: What is depreciation and why must certain assets be depreciated?

A: Depreciation is a method of allocation of the cost of certain fixed assets over their useful life. The impetus of this device is to recognize expenses related to the purchase of fixed assets in the period they are incurred.

Q: Our organization's cash outlay was in the current year. Does this mean we have to wait years to recover the cost of our purchase?

A: Not necessarily - there are two Internal Revenue Code sections that govern the accelerated expensing of fixed assets, allowing for 100% of the cost incurred to be expensed in the year of purchase: IRC § 179 and IRC §168(k), often referred to "Bonus Depreciation."

Q: You indicated both of those code sections allow for 100% expensing of assets in the current year. What is the difference?

A: Section 179 is limited to business income (this does include wages) in the current year, and thus, cannot create a loss. The unused amount is suspended and carried forward to future periods until extinguished. Bonus (§168(K)) can create a loss, but is limited to assets with a useful life of 20 years or less.

Q: What about Qualified Improvement Property?

A: Qualified Improvement Property is a beneficial provision allowing for improvements to the interior portion of a business building to be classified as 15-year property (as opposed to 39 years, which they would be classified as), qualifying for bonus depreciation. Congress failed to extend this while writing the new tax law, admittedly by oversight. This will likely be corrected in the near future.

Q: Are there any items too small to depreciate?

A: Yes, each organization should have a capitalization policy. As no organization should be expected to track & depreciate minutiae, each organization should set a threshold for which purchases will simply be expensed. Contact your CPA to determine if your capitalization threshold is appropriate.