

# BONUS DEPRECIATION

## What is Bonus Depreciation?

Bonus depreciation is a tax incentive that allows investors to immediately deduct a sizable percentage of the cost of qualifying assets. The One Big Beautiful Bill Act (OBBBA) signed into law in July 2025 permanently restored 100% bonus depreciation for qualified property acquired and placed in service after January 19, 2025. This reverses the previous phase-out of bonus depreciation that started at 80% in 2023 and was scheduled to decline to 40% in 2025.

## Qualifying property generally includes:

- Tangible personal property, meaning non-structural items that can be removed without damaging the building, such as carpeting, furniture, signage, equipment, and fixtures, with a useful life of 20 years or less
- Qualified improvement property (QIP), such as interior renovations not affecting structural components
- Some machinery, equipment, and furnishings

## The OBBBA includes several significant provisions:

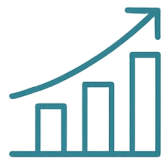
- 100% Bonus Depreciation Made Permanent
  - Investors can deduct the full cost of eligible assets in year one, improving cash flow and internal rate of return (IRR).
- Section 179 Expensing Limit Increased
  - The cap was raised to \$2.5 million, with a phaseout starting at \$4 million, allowing more aggressive expensing of QIP and short-life property.
  - Limits are adjusted for inflation.
- Section 168(n) for Manufacturers
  - Allows full expensing of real estate used in domestic manufacturing for projects starting construction between 2025 and 2028, which has the potential to stimulate industrial development.
- Cost Segregation Synergies
  - Cost segregation studies become even more valuable, enabling landlords to identify components of a property eligible for immediate expensing.

## Strategic Benefits for Landlords



Improved  
Cash Flow

Retain more income in the early years of property ownership.



Higher  
IRR

Boosted IRR due to early tax savings.



Capital  
Flexibility

Funds saved through tax deferral can be reinvested.



Deal  
Feasibility

Projects that didn't pencil before may now be viable.

# COST SEGREGATION

## What is Cost Segregation and Its Benefits?

Cost segregation is a tax-deferral strategy that involves breaking down and reclassifying building components into shorter depreciation categories (e.g., commercial at 5, 7, or 15 years and residential at 27.5 years) instead of depreciating the entire building over 39 years.

**How It Works:** A cost segregation study, performed by qualified specialists or engineers, breaks down a building's construction or acquisition cost into categories like:

- Flooring, cabinetry, appliances
- Electrical and plumbing systems specific to certain uses
- Landscaping, parking lots, and outdoor lighting

### Benefits

- Accelerates Depreciation: Enables immediate write-offs through bonus depreciation.
- Increases Cash Flow: More deductions early in ownership means lower taxable income.
- Improves ROI: Shortens payback period for capital expenditures.

**Example:** On a \$3 million office building (not including land), a cost segregation study may identify \$600,000 in 5- and 15-year assets. With 100% bonus depreciation, this results in a current year \$600,000 deduction. At a 37% tax rate, that's \$222,000 in first-year tax savings.

## Top Property Types That Might Benefit Most

Properties with significant amounts of personal property or tenant improvements are particularly well-positioned.

- Retail: Often include lighting, signage, and leasehold improvements.
- Industrial: May contain conveyor systems, loading docks, and equipment.
- Medical Office Buildings: Include specialty plumbing, cabinetry, and partitions.
- Multifamily: Benefit from appliance packages, flooring, and common area upgrades.
- Hotels: Furniture, fixtures, equipment (FF&E), and branded upgrades qualify.
- Car Washes: Benefit from equipment-heavy layouts including vacuums, dryers, and wash tunnels.
- RV Parks: Often include pad utilities, signage, and site improvements that qualify for faster depreciation.

**Example:** A newly constructed multifamily property might allocate 20–30% of its basis to 5- or 15-year assets, eligible for 100% bonus depreciation. On a \$5 million basis, that could result in \$1.0–\$1.5 million of immediate deduction.

## Average Reclassification of Segregated Property

| Property Type                  | Average Basis Reallocation |
|--------------------------------|----------------------------|
| Car Wash/RV Park/Storage Units | 60-100%                    |
| Manufacturing                  | 25-60%                     |
| R&D Facility                   | 30-55%                     |
| Grocery Store                  | 25-50%                     |
| Restaurant                     | 20-50%                     |
| Apartment Building             | 20-50%                     |
| Hotel                          | 25-45%                     |
| Strip Mall                     | 20-40%                     |
| Residential Rental             | 20-40%                     |
| Office Building                | 10-40%                     |
| Warehouse                      | 10-30%                     |

# EXAMPLE PROPERTY

## Example Property Overview

- Purchase Price: \$1,000,000
- Tax Rate Assumed: 40%
- Depreciable Basis for Improvements: \$240,000
- Cap Rate: 6%
- NOI: \$60,000
- Present Value Factor: 8%



## Reclassified Components through Cost-Segregation & Example Property Tax Impact

| Asset Class                           | Amount Reclassified | Depreciation Method (Before OBBBA) | Depreciation Method (After OBBBA) |
|---------------------------------------|---------------------|------------------------------------|-----------------------------------|
| 5-Year Property                       | \$140,000           | Straight-Line (5 yrs)              | 100% Bonus Depreciation           |
| 15-Year Property                      | \$100,000           | Straight-Line (15 yrs)             | 100% Bonus Depreciation           |
| 39-Year Property                      | \$760,000           | Straight-Line (39 yrs)             | Straight-Line (39 yrs)            |
| Immediate Depreciation (Y1)           | --                  | \$25,000                           | \$236,923                         |
| First-Year Tax Savings (at 40%)       | --                  | \$10,000                           | \$94,769                          |
| Effective Tax Shield on Rent (Y1)     | --                  | \$10,000                           | \$94,769                          |
| Net Taxable Income After Depreciation | --                  | \$50,000                           | (\$34,769)                        |

Sources: Newmark Mountain West Research, Porto Leone Consulting LLC, HCVT, Wasatch Cost Segregation

# DEPRECIATION WITH AND WITHOUT COST SEGREGATION

| Year              | Depreciation without Cost Seg | Depreciation with Cost Segregation |             |                  |                  |                    | Detail of Benefits     |             |                              |
|-------------------|-------------------------------|------------------------------------|-------------|------------------|------------------|--------------------|------------------------|-------------|------------------------------|
|                   |                               | Year 5                             | Year 7      | Year 15          | Year 39          | Total              | Increased Depreciation | Tax Savings | Present Value of Tax Savings |
| 2025              | \$12,821                      | \$140,000                          | \$ -        | \$100,000        | \$9,744          | \$249,744          | \$236,923              | \$94,769    | \$94,769                     |
| 2026              | \$25,641                      | \$ -                               | \$ -        | \$ -             | \$19,487         | \$19,487           | \$(6,154)              | \$(2,462)   | \$(2,279)                    |
| 2027              | \$25,641                      | \$ -                               | \$ -        | \$ -             | \$19,487         | \$19,487           | \$(6,154)              | \$(2,462)   | \$(2,110)                    |
| 2028              | \$25,641                      | \$ -                               | \$ -        | \$ -             | \$19,487         | \$19,487           | \$(6,154)              | \$(2,462)   | \$(1,954)                    |
| 2029              | \$25,641                      | \$ -                               | \$ -        | \$ -             | \$19,487         | \$19,487           | \$(6,154)              | \$(2,462)   | \$(1,809)                    |
| 2060              | \$25,641                      | \$ -                               | \$ -        | \$ -             | \$19,487         | \$19,487           | \$(6,154)              | \$(2,462)   | \$(166)                      |
| 2061              | \$25,641                      | \$ -                               | \$ -        | \$ -             | \$19,487         | \$19,487           | \$(6,154)              | \$(2,462)   | \$(154)                      |
| 2062              | \$25,641                      | \$ -                               | \$ -        | \$ -             | \$19,487         | \$19,487           | \$(6,154)              | \$(2,462)   | \$(143)                      |
| 2063              | \$25,641                      | \$ -                               | \$ -        | \$ -             | \$19,487         | \$19,487           | \$(6,154)              | \$(2,462)   | \$(132)                      |
| 2064              | \$25,641                      | \$ -                               | \$ -        | \$ -             | \$19,487         | \$19,487           | \$(6,154)              | \$(2,462)   | \$(61)                       |
| <b>Total</b>      | <b>\$1,000,000</b>            | <b>\$140,000</b>                   | <b>\$ -</b> | <b>\$100,000</b> | <b>\$760,000</b> | <b>\$1,000,000</b> | <b>\$0</b>             | <b>\$0</b>  | <b>\$65,591</b>              |
| <b>% of Total</b> | <b>100%</b>                   | <b>14%</b>                         | <b>0%</b>   | <b>10%</b>       | <b>76%</b>       | <b>100%</b>        |                        |             |                              |

Sources: Newmark Mountain West Research, Porto Leone Consulting LLC, HCVT, Wasatch Cost Segregation

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