Special depreciation phase down. For property placed in service in 2016 and 2017, the allowable special depreciation is 50% of the adjusted basis of the property. In 2018, the allowable percentage becomes 40%. In 2019, the allowable percentage becomes 30%. Unless Congress extends the provision, special depreciation will expire for tax years after 2019. For certain longer-lived and transportation properties, the provisions take effect one year later. See *Special Depreciation,* page 2-9.

15-year recovery period. The 15-year recovery period for qualified real property is not elective. However, the taxpayer may elect to use the ADS for all 15-year property and depreciate the property over 39 years.

Qualified Real Property: Section 179, Special Depreciation, or 15-Year SL

Under the general rule, costs of nonresidential real estate and structural components are depreciated under MACRS using the straight-line method over 39 years. However, certain qualified real property may be eligible for a Section 179 deduction, a special depreciation allowance, or a 15-year cost recovery period. The rules are summarized in the chart below.

Qualified Real Property

Property	*Section 179*	*15-Year Recovery*	*Special Depreciation*
Leasehold improvement property	Yes	Yes	Yes [1]
Retail improvement property	Yes	Yes	No [2]
Restaurant property	Yes	Yes	No [2]
Improvement property	No [3]	No [3]	Yes
Provision expires	Permanent	Permanent	December 31, 2019 [4]

[1] Beginning in 2016, leasehold improvement property is eligible for special depreciation as qualified improvement property.
[2] Unless the property is also considered improvement property.
[3] Unless the property is also considered leasehold improvement property, retail improvement property, or restaurant property.
[4] December 31, 2020 for certain noncommercial aircraft and certain long production period property.

Qualified leasehold improvement property. Qualified leasehold improvement property includes improvements made to an interior portion of nonresidential real property if the following requirements are met.

- The improvement is made by the lessee, lessor, or any sublessee.
- The improvement is section 1250 property. This does not include section 1245 property that is eligible for a shortened recovery period under cost segregation rules.
- The lease is not between related persons.
- The interior portion of the building must be occupied exclusively by the lessee or sublessee.
- The improvement must be placed in service more than three years after the date the building was first placed in service.

Nonqualifying leasehold improvement property. Qualified leasehold improvement property does not include enlargement of the building, an elevator or escalator, a structural component that benefits a common area, or the internal structural framework of the building.

Qualified retail improvement property. Qualified retail improvement property includes improvements made to the interior of nonresidential real property if the following requirements are met.

- The improvements must be made to space open to the general public and used in a retail trade or business of selling tangible personal property to the public.
- The improvements must be placed in service more than three years after the building was first placed in service.

Nonqualifying retail improvement property. Qualified retail improvement property does not include enlargement of the building, an elevator or escalator, a structural component that benefits a common area, or the internal structural framework of the building.

Qualified restaurant property. Qualified restaurant property is any section 1250 property that is a building or an improvement to a building placed in service during the tax year. More than 50% of the building's square footage must be devoted to preparation of meals and seating for on-premises consumption of prepared meals.

Qualified improvement property. Qualified improvement property includes improvements made to an interior portion of nonresidential real property. The property may be owner occupied and the improvements may be made any time after the building is first placed in service.

Nonqualifying improvement property. Qualified improvement property does not include enlargement of the building, an elevator or escalator, or the internal structural framework of the building.

State Conformity to Federal Special Depreciation and Section 179 Expense Deduction

(as of 12/31/16)

The following table reflects the conformity of the various states, to these two federal provisions, as of December 31, 2016.
Refer to each state's department of revenue website for additional information and for any new changes in state law.

	Personal Income Tax		Corporate Income Tax	
State	Conforms to Federal Special Depreciation? • 50% for qualifying property purchased and placed in service during 2016.	Conforms to Federal Section 179 Expense Limits? • $500,000 maximum deduction. • $2,010,000 investment limit. • Applies to certain real property* and off-the-shelf computer software.	Conforms to Federal Special Depreciation? • 50% for qualifying property purchased and placed in service during 2016.	Conforms to Federal Section 179 Expense Limits? • $500,000 maximum deduction. • $2,010,000 investment limit. • Applies to certain real property* and off-the-shelf computer software.
Alabama	Yes	Yes	Yes	Yes
Alaska	No personal income tax.	No personal income tax.	Yes. Except for oil and gas companies who are not eligible for special depreciation.	Yes. Except for oil and gas companies who are not eligible Section 179 expense.
Arizona	No. Allows special depreciation of 55% of the federal amount. The remaining federal bonus depreciation is added to basis and deducted using the regular federal depreciation method.	Yes	No. Allows special depreciation of 55% of the federal amount. The remaining federal bonus depreciation is added to basis and deducted using the regular federal depreciation method.	Yes
Arkansas	No	No. Allows Section 179 expense up to $25,000 maximum deduction and $200,000 investment limit.	No	No. Allows Section 179 expense up to $25,000 maximum deduction and $200,000 investment limit.
California	No	No. Allows Section 179 expense up to $25,000 maximum deduction and $200,000 investment limit. Does not include real property and off-the-shelf computer software.	No	No. Allows Section 179 expense up to $25,000 maximum deduction and $200,000 investment limit. Does not include real property and off-the-shelf computer software.
Colorado	Yes	Yes	Yes	Yes
Connecticut	Yes	Yes	No	Yes
Delaware	Yes	Yes	Yes	Yes
District of Columbia	No	No. Allows Section 179 expense up to $25,000 maximum deduction **($40,000 for Qualified High Technology Company).**	No	No. Allows Section 179 expense up to $25,000 maximum deduction **($40,000 for Qualified High Technology Company).**
Florida	No personal income tax.	No personal income tax.	No. All special depreciation is added back. 1/7 of the addback amount is subtracted in the current and following six years.	**Yes. Section 179 deduction claimed after January 1, 2015, is not subject to the addback provisions (continue 1/7 of the original addback amount for Section 179 deduction in excess of $128,000 for property placed in service before January 1, 2015).**
Georgia	No	Yes. But does not allow the Section 179 deduction for certain real property.	No	Yes. But does not allow the Section 179 deduction for certain real property.
Hawaii	No	No. Allows Section 179 expense up to $25,000 maximum. Not allowed for off-the-shelf computer software.	No	No. Allows Section 179 expense up to $25,000 maximum. Not allowed for off-the-shelf computer software.
Idaho	No	Yes	No	Yes
Illinois	No	Yes	No	Yes
Indiana	No	No. Allows Section 179 expense up to $25,000 maximum deduction.	No	No. Allows Section 179 expense up to $25,000 maximum deduction.