To maximize — or *not* to maximize — depreciation deductions on your 2025 tax return

The deadlines for filing 2025 tax returns (or extensions) are fast approaching. Although most tax planning moves must be completed by December 31 of the tax year, there are some decisions you can make when filing your return that can save taxes now or in the future. One such decision is whether to claim accelerated depreciation breaks.

Depreciation basics

For assets with a useful life of more than one year, the cost generally must be depreciated over a period of years (unless accelerated depreciation breaks are available). In other words, taxpayers can deduct only a portion of the asset's cost each year over the depreciation period.

The depreciation period depends on the type of asset, ranging from three years (such as for software and small tools) to 39 years (for commercial real estate). The Modified Accelerated Cost Recovery System (MACRS) provides larger deductions in the early years of an asset's life than the straight-line method.

In many cases, assets can be depreciated much more quickly under special tax breaks. Some of these breaks were enhanced by last year's One Big Beautiful Bill Act (OBBBA).

First-year bonus depreciation

Under the OBBBA, 100% first-year bonus depreciation can be claimed on 2025 tax returns for qualified assets that were acquired after January 19, 2025, and placed in service in 2025.

Eligible assets include:

- Depreciable personal property, such as equipment, computer hardware and peripherals,
- Transportation equipment, including certain passenger vehicles, and
- Commercially available software.

First-year bonus depreciation can also be claimed for real estate qualified improvement property (QIP). QIP is defined as an improvement to an interior portion of a nonresidential building placed in service after the date the building was placed in service. However, expenditures attributable to the enlargement of a building, elevators or escalators, or the internal structural framework of a building don't count as QIP and usually must be depreciated over 39 years.

The first-year bonus depreciation percentage is 40% for qualified assets acquired on or before January 19, 2025, and placed in service in 2025.

Bonus depreciation is automatically applied to eligible assets unless you elect out of it. However, you can elect out of it only on an asset class basis. For example, you can elect out of it for *all* three-year property, but you can't elect out of it for just one specific three-year asset.

Section 179 expensing election

Sec. 179 expensing allows small businesses to write off the full cost of 2025 eligible assets. For tax years beginning in 2025, the maximum Sec. 179 deduction is $2.5 million (double the pre-OBBBA limit).

Eligible assets include:

- Depreciable personal property, such as equipment, computer hardware and peripherals,
- Transportation equipment, including certain passenger vehicles,
- Commercially available software, and
- Real estate QIP.

For nonresidential real property, Sec. 179 deductions are also allowed for qualified expenditures for:

- Roofs,
- HVAC equipment,
- Fire protection and alarm systems, and
- Security systems.

Finally, eligible assets include depreciable personal property used predominantly to furnish lodging, such as furniture and appliances in a property rented to transients.

In addition to the annual expense limit, Sec. 179 expensing is subject to a couple of other limits that don't apply to bonus depreciation. First, the deduction is phased-out dollar for dollar if you put more than $4 million of qualifying assets into service last year. Second, Sec. 179 deductions can't cause an overall business tax loss. The Sec. 179 deduction limits can be tricky if you own an interest in a pass-through business entity.

That said, claiming Sec. 179 expensing can be beneficial for assets not eligible for 100% bonus depreciation or if you want to immediately deduct the cost of some, but not all, assets in a particular asset class that is also eligible for bonus depreciation.

Depreciation deduction strategies

Claiming the maximum depreciation deductions you can on your 2025 income tax return will generally provide the greatest 2025 tax savings. Among other benefits, this can boost cash flow and provide more funds for further investment in the business.

But there are circumstances where it may be better to depreciate assets over a period of years. For example, the Section 199A qualified business income (QBI) deduction for pass-through businesses can be up to 20% of an owner's QBI. Because of the income limitations on this deduction, claiming big first-year depreciation deductions can reduce QBI and lower or even eliminate your allowable QBI deduction.

Depreciating assets over a period of years can also be beneficial if you expect to be subject to higher tax rates in the future, such as if you may be in a higher tax bracket or lawmakers increase rates. When you claim 100% bonus depreciation or Sec. 179 expensing today, you're eliminating your depreciation deductions for those assets in the future. And deductions save more tax when tax rates are higher.

Time to get started

We can identify which depreciation breaks you're eligible for, review your overall tax situation and help determine whether it will be beneficial for you to maximize depreciation-related breaks on your 2025 tax return. We can also strategize with you on tax planning for 2026 asset investments. Please contact us to get started.