



Informational Briefing: Expensing of Qualified Fixed Assets

This grid is for *informational purposes only* and outlines how the 2017 tax reform act changes the federal tax law and the potential impact on Kansas. Please note, **this is not an all-inclusive list of provisions in the federal tax reform bill; this grid is not authoritative guidance; this grid does not represent a KSCPA position on policy.**

<p>EXPENSING: Certain business assets, such as equipment and buildings, are depreciated (expensed) over time. Bonus depreciation allows for an immediate deduction in the year of purchase for qualified property. Section 179 allows for certain business property purchases to be expensed and deducted up to a certain maximum and phase-out threshold.</p>			
Federal Tax Law Change – Passthroughs & Corporate	Current Kansas Law – Passthroughs & Corporate	Kansas Impact & Considerations – Passthroughs & Corporate	What does the 2018 proposal (SB 303) entail?
<p><i>100% Expensing of Qualifying Fixed Assets and Increased Sec. 179 Depreciation</i></p> <p>Allows companies to expense 100% of the cost of qualified property placed in service after September 27, 2017 and before January 1, 2023.</p> <p>The percentage is phased down by 20% each year beginning in 2023 with normal depreciation rules after.</p> <p>Both Sec 179 and bonus depreciation is available for new and used equipment now. Prior to 2018 you could not use bonus depreciation on used property.</p>	<p>Kansas conforms to Federal law regarding depreciation deductions on individual income tax returns</p> <p>Kansas conforms to both the federal bonus depreciation rules under I.R.C. § 168(k) and the federal treatment of I.R.C. § 179 expensing on corporate returns.</p>	<p><u>Potential Impact:</u></p> <p>Bonus Depreciation and Sec 179 provides for deductions in the year acquired whereas regular depreciation is spread over a number of tax years.</p> <p>Kansas currently conforms to the I.R.C. on a rolling basis. The starting point for calculating Kansas taxable income is federal taxable income. There are no modifications regarding section 179 expensing or bonus depreciation. As such, Kansas would conform.</p> <p>The effect of the up-front deduction is a timing difference that reverses over multiple tax years. This will likely result in less Kansas revenue initially and then flatten out or possibly reverse over future years. 100% Bonus Depreciation phases out in tax years 2023 - 2026.</p> <p>To the extent Kansas were to decouple from the I.R.C. §§ 168(k) and 179 law changes, various issues may arise, including: federal/state basis discrepancies, modifications required to compute Kansas taxable income and financial statement implications associated with potential book-to-tax differences.</p>	<p>SB 303 would allow certain individual income taxpayers to claim the expensing deduction for the costs of placing certain tangible property and computer software into service in the state</p> <p>SB 303 includes the addition of computer software. Section 197(e)(3)(B) Computer software defined: For purposes of subparagraph (A), the term “computer software” means any program designed to cause a computer to perform a desired function. Such term shall not include any data base or similar item unless the data base or item is in the public domain and is incidental to the operation of otherwise qualifying computer software.</p>