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Bonus depreciation is a federal law that allows taxpayers to deduct all or an enhanced portion of the cost of certain business property in the year the property is placed in service, rather than over a period of years under established depreciation schedules. Minnesota only partially conforms to bonus depreciation.

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## **Bonus depreciation**

Federal law allows taxpayers to claim a percentage of an asset's basis (typically, the cost of the asset to the taxpayer) as "bonus depreciation" in the year the asset is placed in service. Taxpayers may then claim the regular depreciation amount on the remaining share of the asset's basis. The bonus depreciation provision acts to shift depreciation toward the early years of the asset's life.

Under changes to bonus depreciation in the federal 2017 Tax Cuts and Jobs Act (TCJA), the percentage of an asset's basis that may be deducted in the first year phases out over time. Generally, for most property, the percentage was 100 percent for property placed in service after September 17, 2017, and before January 1, 2023. For each year after 2022, the percentage is reduced by 20 points, until it reaches zero in 2027.

## **Assets qualifying for bonus depreciation**

Property qualifying for bonus depreciation includes:

- Certain assets with a depreciable life of 20 years or less, including automobiles, computers, certain manufacturing equipment, and certain structures
- Water utility property
- Certain computer software
- Certain improvements to nonresidential real property
- Production costs for film, television, and theatrical productions
- Certain used property

## **Minnesota's treatment of bonus depreciation**

Minnesota only partially conforms to federal bonus depreciation, by requiring a certain amount of bonus depreciation allowed federally to be added back to taxable income for state income tax purposes, and then deducted over a period of years, rather than in the year the property is placed in service. Specifically, Minnesota requires taxpayers to add back to taxable income 80 percent of the bonus depreciation in the year the asset is placed in service, and then subtract one-fifth of this 80 percent amount added back in each of the five following tax years. Put another way, Minnesota taxpayers are allowed to claim 20 percent of federal bonus depreciation in the first year, and the remaining 80 percent in equal parts in each of the five following years. Taxpayers are allowed to claim the full bonus amount, just over a six-year period rather than all in the first year.

For the remaining percentage of an asset’s basis that is not allowed the bonus depreciation deduction federally, Minnesota follows federal law, which allows the remaining percentage to be depreciated using the existing rules and schedules for regular depreciation.

The following table shows the difference between federal and state depreciation for a ten-year asset with a \$100,000 basis, for the effect of the federal bonus depreciation deduction allowed in tax year 2024.

**Federal and State Bonus Depreciation  
Ten-Year Asset with \$100,000 Basis**

Year of asset’s life	Federal bonus	Regular depreciation	Federal total	State bonus	Regular depreciation	State total
1	\$60,000	\$4,000	\$64,000	\$12,000	\$4,000	\$16,000
2	-	\$7,200	\$7,200	\$9,600	\$7,200	\$16,800
3	-	\$5,760	\$5,760	\$9,600	\$5,760	\$15,360
4	-	\$4,608	\$4,608	\$9,600	\$4,608	\$14, 208
5	-	\$3,688	\$3,688	\$9,600	\$3,688	\$13,288
6	-	\$2,948	\$2,948	\$9,600	\$2,948	\$12,548
7	-	\$2,620	\$2,620	-	\$2,620	\$2,620
8	-	\$2,620	\$2,620	-	\$2,620	\$2,620
9	-	\$2,624	\$2,624	-	\$2,624	\$2,624
10	-	\$2,620	\$2,620	-	\$2,620	\$2,620
11	-	\$1,312	\$1,312	-	\$1,312	\$1,312
<b>Total</b>	<b>\$60,000</b>	<b>\$40,000</b>	<b>\$100,000</b>	<b>\$60,000</b>	<b>\$40,000</b>	<b>\$100,000</b>



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