

## DEPARTMENT OF STATE REVENUE

**Information Bulletin #118**  
**Income Tax**  
**March 2023**  
**Effective Date: January 1, 2018 (retroactive)**  
**(Replaces Bulletin #118, dated July 2021)**

**SUBJECT:** Bonus Depreciation and Section 179 Expensing Treatment for Indiana Income Tax Purposes

**REFERENCES:** [IC 6-3-1-3.5](#); [IC 6-3-1-33](#); [IC 6-5.5-1-2](#); [IC 6-5.5-1-20](#)

**DISCLAIMER:** Information bulletins are intended to provide nontechnical assistance to the general public. Every attempt is made to provide information that is consistent with the appropriate statutes, rules, and court decisions. Any information that is not consistent with the law, regulations, or court decisions is not binding on either the department or the taxpayer. Therefore, the information provided herein should serve only as a foundation for further investigation and study of the current law and procedures related to the subject matter covered herein.

### SUMMARY OF CHANGES

Only nonsubstantive, technical changes have been made to this bulletin. It has been primarily changed to reflect updated formatting.

### INTRODUCTION

Since 2002, Indiana has largely decoupled from the federal allowances for bonus depreciation and Section 179 expensing. This bulletin sets forth how Indiana follows federal law, where Indiana has differed from following federal law, and reporting of necessary adjustments.

### DEFINITIONS AND ASSUMPTIONS

For purposes of this Bulletin, "Section 1031 Income" refers to income from the sale or exchange of property that would have been deferred under IRC § 1031 prior to January 1, 2018, but which is no longer deferred after December 31, 2017. This income results from like-kind exchanges of tangible personal property. However, Section 1031 Income does not refer to property not of a like-kind exchanged for tangible personal property, such as cash or other property. This can be computed by determining the income from the like-kind exchange and subtracting the amount that would have been income under pre-2018 IRS Form 8824.

"Section 179 Allowance" refers to the expensing that a taxpayer elects to claim under IRC Section 179. References to a Federal Section 179 Allowance are to the federal deduction, while references to an Indiana Section 179 Allowance are to the portion (if any) allowed for Indiana tax purposes.

"Bonus depreciation" is defined in [IC 6-3-1-33](#) to be an amount equal to that part of any depreciation allowance allowed in computing the taxpayer's federal adjusted gross income or federal taxable income that is attributable to the additional first year special depreciation allowance (bonus depreciation) for qualified property allowed under Section 168(k) of the Internal Revenue Code. However, bonus depreciation does not include that portion of the added depreciation allowance attributable to Section 1031 Income and for which a Federal Section 179 Allowance was not claimed.

Throughout this bulletin, it will be assumed for the sake of simplicity that:

- (1) The taxpayer is a calendar-year taxpayer.
- (2) All property is subject to the federal-half year convention.
- (3) The property is subject to five-year 200% declining balance depreciation switching to straight line depreciation at the point when straight line depreciation is greater than 200% declining balance depreciation.
- (4) The depreciation or expensing is otherwise fully allowable in each taxable year.

### SECTION 179 ADJUSTMENTS

In general, if a taxpayer makes an election to claim a Federal Section 179 Allowance, Indiana caps the overall Indiana Section 179 Allowance at \$25,000 against such property. In the first year, the difference between the Federal Section 179 Allowance and the Indiana Section 179 Allowance is an addback for Indiana tax purposes. In subsequent years, the difference between depreciation computed using the Federal Section 179 Allowance and the Indiana Section 179 Allowance will be permitted as a deduction. For reporting purposes, use Code 105 for reporting any addback or deduction on the appropriate Indiana income tax return.

*Example #1:* Taxpayer purchases property for \$225,000. Taxpayer makes an election to expense the entire \$225,000 for federal purposes. Because Indiana caps the Section 179 Allowance at \$25,000, Taxpayer is required to add back the \$200,000 difference. However, the remaining \$200,000 is subject to depreciation allowances. Thus, the reporting would be:

Year	Federal Expensing	State expensing allowance	State depreciation	Code 105 addback
1	225,000	25,000	40,000	160,000
2	-	-	64,000	(64,000)
3	-	-	38,400	(38,400)
4	-	-	23,040	(23,040)
5	-	-	23,040	(23,040)
6	-	-	11,520	(11,520)

Retroactive to January 1, 2018, a portion of the Federal Section 179 Allowance is fully allowable for Indiana tax purposes. This exception applies to property that would have been eligible for tax deferral under IRC Section 1031 prior to the 2017 Tax Cuts and Jobs Act but is subject to tax after passage of the 2017 Tax Cuts and Jobs Act.

The additional portion of Federal Section 179 Allowance that is allowable is equal to the lesser of the Section 1031 Income or the Federal Section 179 Allowance claimed with regard to such property. This special rule is to be applied on an item-by-item basis. However, the Indiana \$25,000 limitation on the Indiana Section 179 Allowance still applies to other property acquired and for which a Federal Section 179 Allowance was claimed as well as any Federal Section 179 Allowance on property in excess of the Section 1031 Income on that property.

*Example #2:* Taxpayer trades in property worth \$200,000 and pays \$100,000 in cash for like-kind property worth \$300,000. In addition, Taxpayer acquires another property item for \$50,000. The previously owned property had been fully depreciated for both federal and state purposes. Taxpayer elects to use a Federal Section 179 Allowance for the entire \$350,000.

Under pre-2018 federal law, \$200,000 gain on the trade-in property would have been deferred but is no longer deferrable. Thus, the first \$200,000 is eligible for full expensing for Indiana. However, the remaining \$100,000 on the trade-in property and the \$50,000 of unrelated property is subject to the \$25,000 Indiana Section 179 Allowance cap.

Thus, the schedule would look as follows:

Year	Federal Expensing	Section 1031 Income	Section 179 Otherwise Allowable	Total Section 179 Allowance	State Regular Depreciation	Code 105 addback
1	350,000	200,000	25,000	225,000	25,000	100,000
2	-	-	-	-	40,000	(40,000)
3	-	-	-	-	24,000	(24,000)
4	-	-	-	-	14,400	(14,400)
5	-	-	-	-	14,400	(14,400)
6	-	-	-	-	7,200	(7,200)

While Indiana has a cap on the amount of Indiana Section 179 Allowance that can be claimed during the first year, Indiana follows the federal phase-out thresholds. Thus, Indiana follows the \$2,500,000 threshold for phase-out under IRC Section 179(b)(2) and adjusted for inflation as opposed to the pre-2003 \$200,000 threshold.

## BONUS DEPRECIATION

Prior to 2018, any taxpayer that owns property for which bonus depreciation was allowed in the current or an earlier taxable year is required to make an adjustment to reflect Indiana's disallowance of bonus depreciation. The adjustment is equal to the amount that would have been computed if an election had not been made to apply the bonus depreciation to the property in the year that it was placed in service.

Effective for taxable years 2018 and later, a portion of bonus depreciation is allowable for Indiana purposes. The portion allowable is equal to the Section 1031 Income on the property reduced by the Federal Section 179 Allowance claimed on the same property, but not below zero. For reporting purposes, use either the specifically designated line of the form or use Code 104 to report any adjustment on the appropriate tax return.

*Example #3:* Taxpayer trades in fully-depreciated property worth \$3,000,000 and cash of \$1,000,000 in exchange for like-kind property worth \$4,000,000. Taxpayer is unable to claim any Federal Section 179 Allowance. Taxpayer elects to fully depreciate the property under IRC Section 168(k).

The \$3,000,000 is Section 1031 Income and thus the full amount can be deducted. However, \$1,000,000 of the bonus depreciation is not eligible for full deduction. Instead, the amount allowable for each year and the addback is as follows:

Year	Federal Bonus Depreciation	Section 1031 Income Depreciation	Remaining State Depreciation	Code 104 Addback
1	4,000,000	3,000,000	200,000	800,000
2	-	-	320,000	(320,000)
3	-	-	192,000	(192,000)
4	-	-	115,200	(115,200)
5	-	-	115,200	(115,200)
6	-	-	57,600	(57,600)

### DISPOSITION

Upon the sale or other taxable disposition of property subject to either bonus depreciation adjustment or a Section 179 Allowance, the taxpayer should determine the difference between the depreciation computed for federal purposes and the depreciation computed for state purposes and report this under the appropriate code (Code 104 or Code 105, depending on whether the adjustment was to bonus depreciation or to Section 179 expensing, respectively).

*Example #4:* Taxpayer acquires property for \$1,000,000 and elects to fully depreciate the property for federal tax purposes in the first year. Taxpayer's cumulative depreciation for Indiana purposes is \$625,000 at the time of disposition. Taxpayer should treat the \$375,000 difference as a negative depreciation adjustment. This adjustment should be Code 104 or Code 105, depending on the federal section under which the property was depreciated.

### SPECIAL RULES REGARDING ZERO-BASIS PARTNERS AND SHAREHOLDERS

For property placed in service prior to 2020, taxpayers claiming either bonus depreciation or Section 179 expensing adjustments should continue to report these adjustments in the manner the adjustment was initially reported for Indiana purposes. For taxable years 2020 and later, any adjustment (including zero basis) should be computed:

- (1) In accordance with the federal depreciation schedule for the asset that would otherwise apply, after application of any allowable state Section 179 Adjustment and any bonus depreciation allowed for state purposes, but
- (2) With a maximum effective deduction no greater than the federal depreciation actually allowed with regard to the property.

### TREATMENT OF PROPERTY WHEN THE BUSINESS LEAVES INDIANA OR ENTERS INDIANA AFTER THE PROPERTY IS PLACED INTO SERVICE

If property was placed into service while a taxpayer was doing business in Indiana but subsequently the taxpayer ceases doing business in Indiana, the depreciation allowable continues to accrue. However, the depreciation generally is subject to zero apportionment for Indiana tax purposes. In addition, if the taxpayer resumes doing business in Indiana at a later time, any deduction to make up for the previously disallowed deduction is not permitted.

Likewise, if property was placed into service while a taxpayer was not doing business in Indiana but subsequently the taxpayer begins doing business in Indiana, the depreciation adjustments shall be permitted in the same manner as if the taxpayer had been doing business in Indiana the entire time.

Similar rules also apply if a taxpayer is an individual or trust and the taxpayer changes residence.

*Example #5:* In 2019, Taxpayer claims \$1,000,000 in bonus depreciation for federal purposes. For Indiana, Taxpayer is permitted only \$200,000 in depreciation. In 2020, Taxpayer claims \$320,000 in depreciation for Indiana purposes. In 2021, Taxpayer ceases doing business in Indiana. In 2023, Taxpayer resumes doing business in Indiana.

For 2021 and 2022, Taxpayer will claim the otherwise allowable depreciation but will have zero apportionment, effectively disallowing the deduction.

For 2023, \$115,200 will be permitted as a depreciation deduction, and for 2024 \$57,600 will be permitted as a depreciation deduction for the last year.

If the inverse applies (i.e., Taxpayer did not do business in Indiana in 2019 or 2020 but began doing business in 2021), the 2019 and 2020 allowable depreciation for Indiana would be subject to zero apportionment, while the 2021 and 2022 depreciation would be allowable for Indiana even in the absence of an actual first-year addback.

### **SPECIAL RULE FOR PROPERTY PLACED INTO SERVICE FOR TAXABLE YEARS ENDING BEFORE JULY 1, 2019**

If a taxpayer acquired property that would have had additional depreciation or expensing allowable because the acquisition was part of an exchange that resulted in Section 1031 Income for a taxable year ending before July 1, 2019, the taxpayer may elect one of three options. These options are available only if a return for an affected taxable year was filed on or before October 31, 2019.

Option 1 is to amend previously-filed returns to reflect the newly-allowable extra depreciation based on Section 1031 Income. Option 2 is to treat the additional allowed depreciation or expensing as occurring in the first taxable year ending after June 30, 2019. However, the combined 2018 and 2019 depreciation and expensing cannot exceed the amount that would have been allowable if the depreciation and expensing had been claimed in the taxable year in which the Section 1031 Income had been realized. Option 3 is to treat the depreciation as if the amendments to allow additional bonus depreciation or expensing had not been enacted.

Taxpayers must be consistent with their reporting of depreciation and expensing in these cases and must maintain books and records sufficient to document how the depreciation and expensing was reported. In addition, if a pass through entity has filed a return on behalf of its owners, the pass through entity's choice of how the depreciation related to Section 1031 expensing will control for its owners.

### **SPECIAL PROVISIONS FOR EXCESS BUSINESS LOSSES**

If a taxpayer has an excess business loss that has been disallowed under [IC 6-3-1-3.5\(a\)\(29\)](#) or [IC 6-3-1-3.5\(f\)\(14\)](#), and a portion of the disallowed loss is the result of bonus depreciation or Section 179 Allowance for property placed into service in the taxable year, a portion of the otherwise required modifications will be treated as occurring in the taxable year following the loss year

The portion of the modification required to be taken into account in the following year is the lesser of:

- (1) The total bonus depreciation and Federal Section 179 Allowance for property placed into service during the loss year; or
- (2) The excess business loss disallowed for Indiana adjusted gross income tax purposes for the taxable year.

Any remaining modification should be treated as a current-year modification. If modifications result from both bonus depreciation and the difference between the Federal Section 179 Allowance and Indiana Section 179 Allowance, then the modification to be moved to the next year is first allocated to the bonus depreciation modification and only to the Section 179 Allowance once no remaining bonus depreciation modifications remain to be reallocated.

*Example #6:* Taxpayer acquires property for \$1,000,000 in 2020 and elects to fully depreciate the property for federal tax purposes in the first year. Taxpayer has a business loss of \$900,000, of which \$641,000 is disallowed for Indiana purposes. The bonus depreciation adjustment for 2020 on this property otherwise would have been \$800,000. For 2020, Taxpayer has a \$159,000 bonus depreciation addback. For 2021, Taxpayer has a \$641,000 bonus depreciation addback minus the \$320,000 deduction otherwise permitted for Indiana purposes, for a net 2021 adjustment of \$321,000.

*Example #7:* Taxpayer acquires property for \$1,000,000 in 2020 and elects to fully depreciate the property for federal tax purposes in the first year. Taxpayer has a business loss of \$1,900,000, of which \$1,641,000 is disallowed for Indiana purposes. The bonus depreciation adjustment for 2020 on this property otherwise would have been \$800,000. For 2020, Taxpayer has no bonus depreciation addback because the bonus depreciation modification (\$800,000) is less than the disallowed excess business loss (\$1,641,000). For 2021, Taxpayer has a \$800,000 bonus depreciation addback minus the \$320,000 deduction otherwise

permitted for Indiana purposes, for a net 2021 adjustment of \$480,000.

*Example #8:* Taxpayer acquires property for \$1,000,000 in both 2019 and 2020 and elects to fully depreciate the property for federal tax purposes in the first year. In 2019, Taxpayer has no excess business loss and reports a \$800,000 addback for bonus depreciation.

However, for 2020, Taxpayer has a business loss of \$900,000, of which \$641,000 is disallowed for Indiana purposes. The bonus depreciation adjustment for 2020 on this property otherwise would have been \$800,000. For 2020, Taxpayer has a \$159,000 bonus depreciation addback for the property placed in service in 2020 minus a \$320,000 deduction for the property placed into service in 2019, for a net bonus depreciation modification of -\$161,000 (i.e., a deduction of \$161,000).

For 2021, Taxpayer has a \$641,000 bonus depreciation addback carried forward minus the \$320,000 deduction otherwise permitted for Indiana purposes with regard to the property placed in service in 2020. In addition, Taxpayer has a \$192,000 bonus depreciation deduction for the property placed in service in 2019, for a net bonus depreciation modification of \$129,000 (\$641,000-\$320,000-\$192,000).

If you have any questions concerning this bulletin, please contact the Tax Policy Division at [taxpolicy@dor.in.gov](mailto:taxpolicy@dor.in.gov).

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Commissioner

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