

Federal Bonus Depreciation Conformity

Tennessee Remains Coupled with Tax Cuts and Jobs Act Bonus Depreciation Provisions

In 2023, Tennessee enacted legislation, the Tennessee Works Tax Act (Public Chapter 377), which coupled Tennessee with the federal bonus depreciation provisions that exist and apply under the federal Tax Cuts and Jobs Act of 2017 (the "TCJA"). This applies to assets purchased on or after January 1, 2023, for which a taxpayer has taken federal bonus depreciation. The TCJA phases out bonus depreciation pursuant to the following schedule, which sets forth the bonus depreciation applicable percentages that taxpayers must apply for excise tax purposes:

Asset Acquired Between:	Bonus Percentage:
1/1/2023 – 12/31/2023	80%
1/1/2024 – 12/31/2024	60%
1/1/2025 – 12/31/2025	40%
1/1/2026 – 12/31/2026	20%
1/1/2027 – and after	0%

Federal Bonus Depreciation Law Change Requires Excise Tax Return Adjustments

On July 4, 2025, the federal government enacted legislation, the One Big Beautiful Bill Act (Public Law No. 119-21) (the "OBBBA"), which sets the bonus depreciation applicable percentage at 100% for qualified property acquired after January 19, 2025. However, Tennessee remains coupled with the TCJA bonus depreciation provisions, and thus, taxpayers

must continue to apply the bonus depreciation applicable percentages set forth in the TCJA bonus depreciation schedule for excise tax purposes.

This will require taxpayers who take federal bonus depreciation deductions, pursuant to the OBBBA, to make appropriate adjustments on Schedule J of their excise tax returns. For example, on August 1, 2025, a taxpayer purchases and places into service qualified property with a basis of \$50,000. The taxpayer takes a bonus depreciation deduction equal to this amount for federal income tax purposes. However, for excise tax purposes, the taxpayer is allowed a bonus depreciation deduction equal to 40% of the qualified property's basis, or \$20,000. The taxpayer must add back \$30,000 on Schedule J, Line 3 of its 2025 tax year excise tax return. The taxpayer will depreciate this \$30,000 portion of the qualified property's basis for excise tax purposes by applying the federal MACRS provisions and will deduct the corresponding depreciation amounts on Schedule J, Line 16.¹

Bonus Depreciation Not Allowed for Qualified Production Property

The OBBBA allows bonus depreciation to be taken for federal income tax purposes with respect to a newly designated category of property, *qualified production property*. *Qualified production property* is certain nonresidential real property that is used by a taxpayer in a qualified production activity (e.g., manufacturing facilities). However, this federal provision does not exist in the TCJA's depreciation provisions, which Tennessee conforms to, and thus is not applicable for Tennessee excise tax purposes.

¹ Taxpayers must make all necessary bonus depreciation adjustments with respect to assets purchased on or after January 1, 2023, on the existing Schedule J lines used to report adjustments for assets purchased on or before December 31, 2022.

Therefore, taxpayers cannot take any bonus depreciation deductions with respect to qualified production property for Tennessee excise tax purposes; taxpayers must depreciate such property for excise tax purposes in accordance with the federal MACRS depreciation provisions applicable to nonresidential real property, and the taxpayer must make appropriate bonus depreciation addback and deduction adjustments on Schedule J of the excise tax return accordingly.

For More Information

Visit www.tn.gov/revenue. Click on Revenue Help to search for answers or to submit an information request to one of our agents.

References

Tenn. Code Ann. § 67-4-2006(a)(12)