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Congress of the United States

JOINT COMMITTEE ON TAXATION
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October 28, 2025

Honorable Elizabeth Warren
United States Senate
SH-311
Washington, D.C. 20510

Dear Senator Warren:

This letter is in response to your request dated September 28, 2025, for information related to the additional first-year depreciation deduction (commonly referred to as “bonus depreciation”) equal to 100 percent of the adjusted basis of qualified property as enacted by Public Law 119-21. At the time of its enactment, the staff of the Joint Committee on Taxation estimated this provision would reduce Federal fiscal year tax receipts by \$362.7 billion within the 2025 – 2034 federal fiscal year budget period.¹ This letter provides information on the use of 100-percent bonus depreciation as applied to various asset classes and industries.

In general

To align the recognition of costs and income associated with long-term assets, a taxpayer generally must capitalize the cost of property used in a trade or business or held to produce income and recover such cost over time through periodic deductions for depreciation or amortization. The recovery period typically begins when the asset is placed in service by the taxpayer. Tangible property generally is depreciated under the modified accelerated cost recovery system (“MACRS”).

MACRS general depreciation system (“GDS”)

Under MACRS, there are two methods for determining depreciation allowances: (1) the general depreciation system (“GDS”); and (2) the alternative depreciation system (“ADS”). The type of property is used to determine the class life of the asset, which in turn dictates that asset’s applicable recovery period. The GDS recovery periods applicable to most tangible personal property ranges from three to 20 years. GDS depreciation methods allow for faster cost recovery for qualifying tangible property than deducting costs ratably in each tax year using the straight-line method over the course of the asset’s useful life. The GDS depreciation methods generally

¹ Joint Committee on Taxation, *Estimated Revenue Effects Relative to the Present Law Baseline of the Tax Provision in “Title VII – Finance” of the Substitute Legislation as Passed by the Senate to Provide for Reconciliation of the Fiscal Year 2025 Budget* (JCX-35-25), July 1, 2025. This document can be found on the Joint Committee on Taxation website at www.jct.gov.

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applicable to tangible property are the 200-percent and 150-percent declining balance methods, switching to the straight-line method for the first taxable year in which using the straight-line method with respect to the adjusted basis as of the beginning of that year yields a larger depreciation allowance.²

Table 1 shows some examples of types of property and recovery periods during which the cost of the property may be depreciated under GDS.

Table 1 - Examples of Types of Property by Recovery Period Asset Class

Asset Class	Types of Property
3-Year Property	Tractor units, certain racehorses, qualified rent-to-own property, certain computer software
5-Year Property	Automobiles, trucks, and other vehicles; noncommercial aircrafts; computers; semi-conductor manufacturing equipment; medical equipment; construction assets; logging machinery; farm machinery; oil and gas drilling equipment; appliances and furniture used in rental real estate; vessels used in marine construction
7-Year Property	Office furniture, fixtures and equipment; railroad assets; commercial aircraft; motorsports entertainment complexes; fishing vessels
10-Year Property	Other means of water transportation including yachts, barges, and tugs; greenhouses and single-purpose agricultural structures used to house, raise, and feed a particular type of livestock or chickens and to house related equipment; fruit and nut bearing trees and vines; smart electric meters and grid systems
15-Year Property	Qualified improvement property (includes improvements to interior portions of nonresidential real property), municipal wastewater treatment plants, telephone distribution plant and equipment, certain pipeline transportation assets
20-Year Property	General purpose farm buildings such as barns and machine sheds, land improvements for electric utility transmission and distribution plants

² Under the declining balance method, the depreciation rate is determined by dividing the appropriate percentage (here 150 or 200) by the appropriate recovery period. This leads to accelerated depreciation when the declining balance percentage is greater than 100. Under the straight-line method, the cost of the property placed in service is deductible in equal amounts annually over the asset life.

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Residential rental property is recovered using the straight-line method over 27.5 years and nonresidential real property is recovered using the straight-line method over 39 years.

MACRS Alternative Depreciation System (“ADS”)

In certain cases, MACRS ADS must be used.³ The ADS is required for tangible property used predominantly outside the United States, certain tax-exempt use property, tax-exempt bond financed property, certain imported property covered by an Executive order, and certain property held by either a real property trade or business or a farming business electing out of the business interest limitation under section 163(j). In addition, an election to use ADS is available to taxpayers for any class of property for any taxable year. The ADS election is generally irrevocable.

Under ADS, all property is depreciated using the straight-line method over the asset’s assigned class life. The assigned asset class lives under ADS for personal property are generally longer than the GDS lives listed above. The asset class life under ADS is 30 years for residential rental property and 40 years for nonresidential real property.

Placed in Service Convention

Depreciation of an asset begins when the asset is placed in service under the applicable convention. Under MACRS, nonresidential real property, residential rental property, and any railroad grading or tunnel bore are subject to the mid-month convention, which treats all property placed in service during any month (or disposed of during any month) as placed in service (or disposed of) on the mid-point of such month. All other property generally is subject to the half-year convention, which treats all property placed in service during any taxable year (or disposed of during any taxable year) as placed in service (or disposed of) on the mid-point of such taxable year to reflect the assumption that assets are placed in service ratably throughout the year.⁴ Table 2 summarizes the recovery periods, depreciation methods, and applicable conventions under GDS.

³ See sec. 168(g).

⁴ If substantial property is placed in service during the last three months of a taxable year, a special rule requires use of the mid-quarter convention. The mid-quarter convention prevents the recognition of disproportionately large amounts of first-year depreciation allowances under the half-year convention.

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Table 2 - General GDS Rules

Class of Property	Depreciation Method	Convention
3-year	200% declining balance	Half-year
5-year	200% declining balance	Half-year
7-year	200% declining balance	Half-year
10-year	200% declining balance	Half-year
15-year ⁵	150% declining balance	Half-year
20-year	150% declining balance	Half-year
Residential Rental Property	Straight line	Mid-month
Nonresidential Real Property	Straight line	Mid-month

Section 179 Expensing

Subject to certain limitations, a taxpayer may elect under section 179 to deduct (or “expense”) the cost of qualifying property, rather than recover such costs over time through depreciation deductions. The maximum amount a taxpayer may expense is \$2,500,000 of the cost of qualifying property placed in service for the taxable year. The \$2,500,000 amount is reduced (but not below zero) by the amount which the cost of qualifying property placed in service during the taxable year exceeds \$4,000,000. The \$2,500,000 and \$4,000,000 amounts are indexed for inflation for taxable years beginning after 2025.

The Section 179 deduction is subject to a business income limitation in which a net operating loss cannot be created as a result of taking the deduction. Any amount not allowed because of such limitation may be carried forward to succeeding taxable years.

Bonus Depreciation

Prior to the enactment of Public Law 119-21 on July 4, 2025, a bonus depreciation deduction equal to 100 percent of the adjusted basis of qualified property was allowed for property acquired after September 27, 2017, and placed in service before January 1, 2023 (January 1, 2024, for certain long production period property and certain aircraft). The 100-percent allowance was phased down by 20 percentage points per calendar year for property acquired after September 27, 2017, and placed in service after December 31, 2022 (after December 31, 2023, for certain long production period property and certain aircraft). Thus, in

⁵ Qualified improvement property is 15-year property subject to the straight-line method.

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general, a first-year depreciation deduction of 40 percent of the adjusted basis of qualified property was allowed for property acquired after September 27, 2017, and placed in service in 2025 (60 percent for certain long production period property and certain aircraft). Bonus depreciation deductions are not subject to a business income limitation, and as a result may create a net operating loss for the taxable year.

Property qualifying for the bonus depreciation deduction must be (1) property to which MACRS applies with an applicable recovery period of 20 years or less, (2) computer software other than computer software required to be amortized under section 197, (3) water utility property,⁶ or (4) a qualified film, television, live theatrical or qualified sound production,⁷ for which a deduction otherwise would have been allowable under section 181 without regard to the dollar limitation or termination of that section.⁸

Public Law 119-21 Bonus Depreciation

Public Law 119-21 made permanent the allowance of a 100-percent bonus depreciation deduction for property acquired and placed in service after January 19, 2025. The bonus depreciation deduction is allowed for both regular tax and the corporate alternative minimum tax. However, the bonus depreciation deduction is not allowed for any property that is required to be depreciated under the ADS.

Bonus Depreciation vs GDS

Bonus depreciation accelerates deductions which otherwise would be taken in later years and thus provides a potential timing benefit to taxpayers. Figure 1 compares the pattern of depreciation deductions for \$1,000 of property placed in service in year one. Under GDS, shorter-lived tangible property receives higher deductions in the first few years while the deduction for longer-lived tangible personal property is spread out over a longer asset life.⁹ Note

⁶ As defined in section 168(e)(5).

⁷ As defined in section 181(d) and (e).

⁸ For a description of section 181, see Joint Committee on Taxation, *General Explanation of Certain Tax Legislation Enacted in the 116th Congress* (JCS-1-22), February 2022, pp. 480-482. This document can be found on the Joint Committee on Taxation website at www.jct.gov.

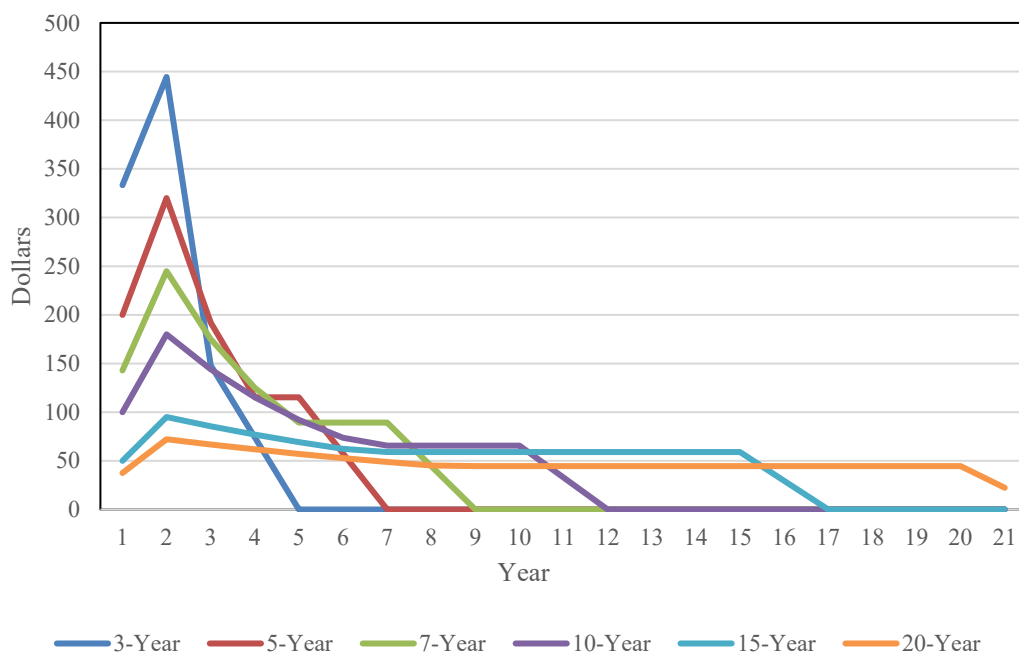
⁹ For purposes of this discussion, tangible property subject to straight-line depreciation under ADS is not included.

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that under GDS, deductions in the first year are less than in the second year due to the half-year convention discussed above. However, in contrast to GDS with 100-percent bonus depreciation, the entire amount of the qualifying investment may be deducted in year one thereby accelerating deductions from later years into year one.

**Figure 1 - Annual Depreciation Allowance per \$1,000 of Capital Expenditures
Under GDS by Asset Class**



Depreciation Deductions Data

Depreciation deductions attributable to trades and businesses are claimed on Form 4562, *Depreciation and Amortization*, attached to tax returns filed by C corporations, S corporations, partnerships and individuals. Table 3 shows the distribution of bonus depreciation deductions reported on Form 4562 by all entities by industrial sector.¹⁰ Across all sectors, reported bonus

¹⁰ Industries are based on the North American Industry Classification System (“NAICS”). NAICS is the standard used by Federal statistical agencies in classifying business establishments for the purpose of collecting, analyzing, and publishing statistical data. The industries presented in Tables 3 and 4 generally follow two-digit NAICS codes. Industry identification is self-reported by the taxpayer on tax returns and the Internal Revenue Service does not necessarily verify the accuracy of the classification stated by the taxpayer.

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depreciation deductions increased from \$829.2 billion in 2018 to \$1,160.6 billion in 2022. Bonus depreciation was concentrated among the five industrial sectors of manufacturing, real estate and rental and leasing,¹¹ wholesale and retail trade, information, and transportation and warehousing. Taken together, these five sectors claimed more the two-thirds of the bonus depreciation deductions during tax years 2018 through 2022.

Table 3 - Bonus Depreciation Deductions by Industrial Sector
Billions of Dollars

Sector	2018	2019	2020	2021	2022	2018-2022	Percent of 2018-2022 Total
Agriculture, Forestry, Fishing and Hunting.....	11.4	13.1	15.4	16.9	22.4	79.3	1.7%
Mining.....	42.1	40.3	26.3	29.4	43.3	181.5	3.8%
Utilities.....	34.8	43.6	30.3	23.8	16.8	149.3	3.1%
Construction.....	24.6	29.0	32.1	38.2	45.5	169.6	3.6%
Manufacturing.....	165.6	197.9	185.2	184.2	232.8	965.7	20.3%
Wholesale and Retail Trade.....	128.5	142.6	109.0	146.8	165.6	692.5	14.5%
Transportation and Warehousing.....	66.0	80.7	63.2	66.9	84.7	361.6	7.6%
Information.....	81.9	85.8	98.3	111.6	136.1	513.6	10.8%
Finance and Insurance.....	44.1	38.2	29.2	52.3	41.8	205.7	4.3%
Real Estate and Rental and Leasing.....	109.2	134.7	126.9	157.6	194.5	723.0	15.2%
Professional, Scientific, and Technical Services..	18.4	20.8	19.7	23.7	26.0	108.6	2.3%
Management of Companies.....	33.1	37.8	27.3	27.3	28.8	154.2	3.2%
Administrative and Support and Waste Management and Remediation Services.....	10.8	13.1	12.4	14.4	16.8	67.6	1.4%
Education Services.....	0.7	1.1	1.2	1.3	1.7	5.9	0.1%
Health Care and Social Assistance.....	12.8	18.6	17.9	20.0	22.9	92.3	1.9%
Arts, Entertainment, and Recreation.....	7.5	9.5	7.4	9.7	13.6	47.7	1.0%
Accommodation and Food Services.....	20.0	27.3	19.8	27.4	33.7	128.2	2.7%
Other Services.....	6.2	6.8	6.7	9.3	10.6	39.6	0.8%
Unclassified.....	11.3	12.1	14.4	19.3	22.8	80.1	1.7%
TOTAL.....	829.2	953.1	842.9	980.2	1,160.6	4,766.1	100.0%

¹¹ For taxable years beginning after December 31, 2017, qualified improvement property held by a real property trade or business electing out of the business interest deduction limitation under section 163(j) is not eligible for bonus depreciation. Real Estate Investment Trusts (“REIT”) commonly elect out of the business interest limitation under section 163(j).

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Table 4 shows the distribution of bonus depreciation deductions reported on Form 4562 by industrial sector for those taxpayers filing as a C corporation. Bonus depreciation deductions claimed by C corporations increased from \$507.9 billion in 2018 to \$628.4 billion in 2022 for a total of \$2,698.6 billion during tax years 2018 through 2022. This total is 56.6 percent of the \$4,766.1 billion of bonus depreciation deductions claimed by all entities during the same period.

Table 4 - Bonus Depreciation Deductions by Industrial Sector, C Corporations
Billions of Dollars

Sector	2018	2019	2020	2021	2022	2018-2022	Percent of 2018-2022 Total
Agriculture, Forestry, Fishing and Hunting.....	2.0	2.5	2.4	2.8	3.2	12.8	0.5%
Mining.....	15.6	16.5	9.7	13.6	19.0	74.3	2.8%
Utilities.....	22.1	25.2	7.9	8.5	4.8	68.5	2.5%
Construction.....	5.6	7.1	6.6	8.2	9.4	37.0	1.4%
Manufacturing.....	131.6	155.5	142.0	146.0	170.6	745.7	27.6%
Wholesale and Retail Trade.....	97.8	105.1	72.9	107.5	118.4	501.8	18.6%
Transportation and Warehousing.....	31.0	44.7	28.5	33.0	46.2	183.4	6.8%
Information.....	60.1	57.7	74.4	87.9	111.9	392.1	14.5%
Finance and Insurance.....	36.4	27.6	18.6	40.4	27.2	150.2	5.6%
Real Estate and Rental and Leasing.....	45.4	50.2	35.4	38.9	52.7	222.6	8.2%
Professional, Scientific, and Technical Services..	9.4	9.6	8.9	9.3	11.6	48.8	1.8%
Management of Companies.....	30.5	35.6	25.3	24.5	24.4	140.4	5.2%
Administrative and Support and Waste Management and Remediation Services.....	4.8	5.5	4.6	4.7	5.2	24.9	0.9%
Education Services.....	0.3	0.4	0.4	0.5	0.5	2.1	0.1%
Health Care and Social Assistance.....	5.4	8.0	6.6	7.5	7.8	35.3	1.3%
Arts, Entertainment, and Recreation.....	1.8	3.1	1.7	2.5	3.4	12.4	0.5%
Accommodation and Food Services.....	6.5	9.0	5.2	7.1	9.8	37.6	1.4%
Other Services.....	1.6	1.9	1.6	1.6	2.1	8.8	0.3%
Unclassified.....	0.0	0.0	0.0	0.0	0.0	0.0	0.0%
TOTAL.....	507.9	565.0	452.8	544.6	628.4	2,698.6	100.0%

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Selected industries

You also requested information on specific industries that do not align with the two-digit North American Industry Classification System (“NAICS”) industrial codes. These industries are the pharmaceutical, oil and gas, technology and defense industries. NAICS codes do not specifically categorize industries as technology or defense. For purposes of the technology industry we are including returns identified as operating in computer manufacturing; communications equipment manufacturing; semiconductor and other electronic component manufacturing; software publishing; computer systems design; telecommunications; computer infrastructure providers, data processing, web hosting and related services; and web search portals.¹² For purposes of the defense industry we are matching non-tax data on large companies with income that reportedly includes funds from a defense contract with tax data. As such, the statistics for “Defense” presented in the table below are not fully representative of the defense industry, but do provide information regarding many of the largest companies contracting with the Department of Defense. In addition, these companies typically have a significant amount of revenue from civilian sources. Of the selected industries, Table 5 indicates the technology industry (as defined above) reported more bonus depreciation than the pharmaceutical, oil and gas, and defense industries combined for tax year 2022.¹³

Table 5 - Bonus Depreciation Deductions by Selected Industries, Tax Year 2022
Billions of Dollars

Industry	C corporations	Percent of Total	All Business Entities	Percent of Total
Technology	128.8	20.5%	152.3	13.1%
Pharmaceutical	9.1	1.5%	9.9	0.8%
Oil and gas	12.4	2.0%	30.1	2.6%
Defense*	17.4	2.8%	17.6	1.5%
Other	460.5	73.3%	950.9	81.9%
Total	628.4	100.0%	1,160.6	100.0%

NOTE: Details may not sum to totals due to rounding.

* Defense data may not be nationally representative of the industry.

¹² These industries represent three-digit and six-digit NAICS codes.

¹³ Companies classified as technology with revenues from defense contracts are included as “Technology” in Table 5.

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You also requested information related to the depreciation deductions these industries are projected to accelerate from later years to 2025 and 2026 due to 100-percent bonus depreciation. If the values in Table 5 follow baseline growth, C corporations are projected to shift approximately \$172 billion in depreciation deductions to tax year 2025 and \$178 billion to tax year 2026. All business entities are projected to shift approximately \$215 billion and \$223 billion to tax year 2025 and tax year 2026, respectively. In this analysis we assume that approximately 15 percent of the deductions that would otherwise qualify for bonus depreciation remain deductible under GDS. However, this assumption is based on aggregate data on the assets lives of property placed in service. The percentage for particular trades or businesses placing property in service may be different. Moreover, investment decisions may be altered by the hypothetical absence of bonus depreciation.

Asset Class Data

Table 6 shows the basis of various asset classes placed in service as well as the section 179 and bonus depreciation deductions claimed on Form 4562 by taxpayers on their tax returns for tax years 2018 through 2022. Taxpayers do not report the asset class of property placed in service for which section 179 and bonus depreciation is claimed.¹⁴

¹⁴ The section 179 expense deductions reflected in Table 6 represent the section 179 deductions reported for the taxable year including carryovers of disallowed deductions from prior taxable years. Section 179 deductions reported on Form 4562 by partnerships and S corporation flow through to the individual tax returns of partners and shareholders and are not double counted.

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**Table 6 - Form 4562, Selected Depreciation Items for Property Placed in Service,
All Businesses
Millions of Dollars, Tax Years 2018 - 2022**

Item	2018	2019	2020	2021	2022	2018-2022
Section 179 expense deduction	61,350	55,803	53,604	64,683	72,519	307,959
Bonus depreciation	829,249	953,096	842,909	980,177	1,160,642	4,766,073
3-year property basis for depreciation	22,552	22,278	20,287	20,116	20,289	105,522
5-year property basis for depreciation	191,545	194,775	204,414	192,471	183,217	966,422
7-year property basis for depreciation	134,921	113,042	96,780	96,168	108,207	549,118
10-year property basis for depreciation	14,411	13,189	10,997	10,468	12,079	61,144
15-year property basis for depreciation	92,840	84,210	94,881	83,595	86,862	442,388
20-year property basis for depreciation	52,661	53,147	57,638	55,603	66,453	285,501
Residential rental property basis for depreciation	356,586	363,213	318,082	386,985	406,394	1,831,260
Nonresidential real property basis for depreciation	323,185	282,281	288,695	401,049	453,628	1,748,838
ADS basis for depreciation	448,875	480,660	434,220	620,050	665,106	2,648,912

In Table 6, the entire basis of property for which the taxpayer deducted bonus depreciation is reflected in the deduction, as the half-year convention does not apply. The amounts shown for 3-, 5-, 7-, 10-, 15-, 20-year, residential rental and nonresidential real property bases for depreciation are the values of property placed in service, by asset class, during the taxable year for which the taxpayer did not elect the section 179 deduction, elected out of the bonus depreciation deduction, and did not use ADS. These amounts are the bases of the property placed in service, not the amount of deduction for each asset class. The deduction is calculated using the applicable depreciation method after applying the half-year convention, or the mid-month convention in the case of residential rental and nonresidential real property. The ADS basis for depreciation is the basis of property placed in service that either required the application of ADS or for which the taxpayer elected to use ADS.

Table 7 shows the basis of various asset classes placed in service by C corporations as well as the section 179 and bonus depreciation deductions claimed on Form 4562. As mentioned above, taxpayers that make substantial annual purchases of eligible assets are not eligible to expense those acquisitions under section 179 because of the phase-out threshold. Consequently, the section 179 usage is generally lower for C corporations with concentrations of larger or more capital-intensive businesses such as utilities.

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**Table 7 - Form 4562, Selected Depreciation Items for Property Placed in Service,
C Corporations
Millions of Dollars, Tax Years 2018 – 2022**

Item	2018	2019	2020	2021	2022	2018-2022
Section 179 expense deduction	8,129	7,712	6,582	7,810	8,923	39,157
Bonus depreciation	507,916	564,999	452,771	544,563	628,350	2,698,599
3-year property basis for depreciation	13,213	12,650	13,530	12,353	12,206	63,952
5-year property basis for depreciation	86,193	120,398	112,287	98,192	84,312	501,381
7-year property basis for depreciation	68,450	52,505	44,853	42,503	44,421	252,732
10-year property basis for depreciation	5,332	3,917	d	3,078	2,705	15,032
15-year property basis for depreciation	47,259	43,943	48,553	41,782	47,728	229,265
20-year property basis for depreciation	41,819	48,032	49,263	47,994	58,011	245,118
Residential rental property basis for deprec	112,867	106,575	80,741	92,154	101,534	493,872
Nonresidential real property basis for deprec	9,121	10,904	7,478	12,044	12,492	52,039
ADS basis for depreciation	141,036	151,262	127,066	143,820	170,112	733,296

d – To avoid disclosure of information of specific corporations, this data is omitted.

As mentioned above, taxpayers do not report the asset class of property placed in service for which bonus depreciation was claimed on an IRS form. Table 8 shows the percentage distribution of the asset class of property placed in service during tax years 2018 through 2022. Assuming the distribution of the asset classes of property placed in service for which bonus depreciation was claimed is similar to the distribution of property for which bonus depreciation was not claimed, most property for which bonus depreciation is claimed is five-year property.¹⁵ Given this assumption on the distribution of asset classes, the median asset class life that companies wrote off through 100-percent bonus depreciation is seven-year property.

¹⁵ This underlying assumption includes a level of uncertainty. For example, it is possible some taxpayers may value accelerating deductions under bonus depreciation for longer-lived assets more than claiming bonus depreciation for shorter-lived assets.

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Table 8
Form 4562, Percentage Distribution of Asset Classes
Tax Years 2018 through 2022

Item	All Entities	C Corporations
3-year property basis for depreciation	4%	5%
5-year property basis for depreciation	40%	38%
7-year property basis for depreciation	23%	19%
10-year property basis for depreciation	3%	1%
15-year property basis for depreciation	18%	17%
20-year property basis for depreciation	12%	19%

Note: Details may not sum to 100 percent due to rounding.

Bonus Depreciation Usage Index

A bonus depreciation usage can be calculated from the data contained in Table 6 and Table 7. The index is calculated as the claimed amount of bonus depreciation divided by the maximum potential bonus depreciation deduction. The maximum potential bonus depreciation deduction is approximated as the sum of claimed bonus depreciation plus the basis of three-through 20-year GDS property placed in service during the tax year computed after being reduced by section 179 expense deductions.¹⁶

The bonus usage index calculated from Table 6 across tax years 2018 through 2022 is 66 percent for all entities. The index for C corporations calculated from Table 7 is 68 percent.¹⁷ While not estimated for purposes of this document, the bonus usage index for tax year 2021 was

¹⁶ Specifically, the index equals bonus depreciation divided by the sum of bonus depreciation, three-year property basis, five-year property basis, seven-year property basis, 10-year property basis, 15-year property basis, and 20-year property basis. It does not include property placed in service for which ADS was elected or required. Measurement limitations make this usage index a somewhat imprecise measure. Expenditures for certain property eligible for bonus depreciation in 2018 through 2022 are not reported separately on the depreciation form, such as computer software and qualified improvement property expenditures; separate data are also not available for expenditures on property that does not qualify for bonus depreciation, or qualifies at less than the 100 percent rate, such as property subject to binding contracts limitations, and listed property subject to the luxury car limitation of section 280F. In addition, data for listed property are limited and generally are omitted from the tables.

¹⁷ For C corporations, this calculation does not include tax year 2020.

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50 percent for sole proprietorships, 70 percent for partnerships, 72 percent for S corporations, and 69 percent for C corporations.¹⁸

As indicated by the bonus usage index, despite the availability of 100-percent bonus depreciation, taxpayers did not claim the benefit from bonus depreciation for approximately one-third of potentially eligible property. The lesser than 100-percent bonus depreciation usage rates may be associated with:

- Taxpayers in a tax net operating loss position in the current year.
- Taxpayers with deferred tax assets such as net operating loss or credit carryovers.
- Multinational businesses where the taxpayer would be in a domestic net operating loss position if bonus depreciation were taken in full or where the taxpayer seeks to mitigate or eliminate their BEAT liability.
- Partnerships or S corporations electing out of bonus depreciation to prevent the creation of losses in excess of partner or shareholder basis.

Bonus depreciation accelerates deductions which otherwise would be taken in later years and thus provides a potential timing benefit to taxpayers. Another possible explanation for a bonus usage rate less than 100 percent is that some taxpayers may anticipate higher tax rates in the future, and for them, there may be a disincentive to shift deductions into a comparatively low tax-rate year.

Returns without net income or without tax liability

You requested information on the number of businesses which have no tax liability in part due to bonus depreciation. There are several reasons a business return may not report tax liability. These reasons include:

- There is no net income, or total deductions exceed total income such that net income is negative.
- Prior year net operating losses reduce current year net income. When calculating taxable income subject to tax, taxpayers may reduce net income by net operating losses carried into the current tax year from other tax years.¹⁹

¹⁸ See Joint Committee on Taxation, *Tax Incentives for Domestic Manufacturing* (JCX-8-24), March 8, 2024. This document can be found on the Joint Committee on Taxation website at www.jct.gov.

¹⁹ In general, net operating loss deductions from tax years ending prior to 2018 are limited to taxable

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- Credits exceed tax on taxable income. Once the income tax on taxable income is calculated, taxpayers may reduce this liability by general business credits and foreign tax credits to determine final tax liability.

Partnerships and S corporations typically do not report or calculate tax liability on their respective tax returns as their income, gain, loss, deductions, and credits are passed through to the tax returns of partners and shareholders who in turn calculate their tax. Partnerships report their ordinary business income or loss on page 1 of Form 1065. S corporations report ordinary business income or loss on page 1 of Form 1120-S. Table 9 shows the number of returns filed by these pass-through entities, the number of returns that reported positive ordinary business income to pass through to their partners and shareholders, and the number of returns that would have positive ordinary business income had they not elected bonus depreciation for qualifying investment.²⁰

Table 9 - Returns Filed by Partnerships and S Corporations
Tax Years 2018 through 2022, Thousands of Returns

Number of Returns	2018	2019	2020	2021	2022
Pass-Through Entities	8,885	8,762	9,173	9,588	9,767
with positive ordinary income	4,268	4,229	4,049	4,559	4,651
with positive ordinary income if no bonus	4,520	4,490	4,340	4,880	4,988

During the 2018 tax year through 2022 tax year period, approximately 47 percent of partnership and S corporation returns reported positive net income. In the event bonus depreciation was not available during these tax years, we estimate approximately 50 percent of those returns would have reported positive net income.²¹

income and excess losses may be carried back two years and then carried forward 20 years. Net operating losses arising in tax years beginning in 2018, 2019, or 2020 may be carried back for five tax years preceding the tax year of the loss and then carried forward indefinitely. For tax years beginning after 2020 and net operating losses arising in tax years beginning after 2017 carried to such years, the net operating loss deduction is limited to 80 percent of taxable income. In general, net operating losses from tax years beginning after 2020 may not be carried back but may be carried forward indefinitely. Special rules are provided for certain farming losses and certain insurance company losses.

²⁰ Sole proprietorships are not included in this analysis.

²¹ This assumes the change in current year business cash flow does not alter other current year economic outcomes for the business.

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The estimate of returns with positive income in the absence of bonus depreciation assumes approximately 15 percent of the deductions that would otherwise qualify for bonus depreciation remain deductible under GDS. However, for a given trade or business, this assumption may or may not reflect the asset lives of the property placed in service or if the investment decision is greatly altered by the absence of bonus depreciation. We have not finished incorporating changes made by Public Law 119-21 into our models and do not have a formal projection of partnership and S corporation returns that will not report positive net income in 2025 and 2026. However, if the trend from 2018 through 2022 continues, we anticipate approximately 53 percent of partnership and S corporation returns will not report positive net income.

Many C corporations report zero net income or report negative net income, and most of these returns report zero income tax liability.²² For C corporations, taxable income is calculated by subtracting the net operating loss deduction and special deductions from net income. Public Law 115-97 limited the use of the net operating loss deduction for tax years beginning after 2017.²³ However, the Coronavirus Aid, Relief, and Economic Security (“CARES”) Act²⁴ suspended some of these rules for tax years beginning after 2017 and before 2021.²⁵ Special deductions include deductions for dividends received from corporations owned by the recipient corporation. Special deductions also include a deduction for 37.5 percent of foreign-derived intangible income (“FDII”) and 50 percent of global intangible low-taxed income (“GILTI”) as enacted by Public Law 115-97 for tax years beginning after 2017.

Table 10 shows the number returns filed by C corporations, the number of returns that reported positive net income, the number of returns that reported positive taxable income, and the number of returns that would have positive taxable income had they not claimed bonus

²² Some returns without positive net income may still be liable for some Federal income tax. For example, some taxpayers without positive net income may owe base erosion and anti-abuse tax or alternative minimum tax.

²³ For net operating losses arising in tax years beginning after 2017, Public Law 115-97 generally eliminated the ability to carry net operating losses to a prior tax year and restricted their use such that they may offset no more than 80 percent of net income. Excess losses generally may be carried forward indefinitely. Special rules apply to certain farming losses and certain insurance company losses.

²⁴ Pub. L. No. 116-136.

²⁵ The CARES Act temporarily suspended the 80 percent of net income limitation and generally permitted net operating losses arising in 2018 through 2020 to be carried back five tax years. For tax years beginning after 2020, the 80 percent of net income limitation and general prohibition on net operating loss carrybacks again apply.

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depreciation for qualifying investment.²⁶ The percentage of C corporations with positive taxable income reached a nadir of 30 percent in 2020 during the COVID-19 pandemic and increased to 41 percent by tax year 2022. In the event bonus depreciation was not available during 2022, we estimate approximately 46 percent of those returns would have reported positive taxable income.²⁷

Table 10 - Returns Filed by C Corporations²⁸
Tax Years 2018 through 2022, Thousands of Returns

Number of Returns	2018	2019	2020	2021	2022
C corporations	1,546	1,514	1,490	1,549	1,556
with positive net income	768	737	644	715	739
with positive taxable income	528	512	440	587	634
with positive taxable income if no bonus	568	553	489	676	715

We have not finished incorporating changes made by Public Law 119-21 into our models and do not have a formal projection of C corporation returns that will not report positive taxable income in 2025 and 2026. However, if the trend from 2018 through 2022 continues, we anticipate approximately 59 percent of C corporation returns will not report positive taxable income.

Returns of C corporations with positive taxable income are subject to a maximum statutory tax rate of 21 percent. The tax rate is applied to taxable income to calculate income tax. However, the amount of tax may be reduced by general business credits, foreign tax credits, other credits, and tax adjustments. Note that the use of general business credits is limited and cannot solely be used to reduce income tax to zero and, in general, foreign tax credits are restricted such that they only offset U.S. tax liability on foreign source income.

²⁶ As noted above, this analysis assumes approximately 15 percent of the deductions that would otherwise qualify for bonus remain deductible under GDS. However, for a given C corporation, this assumption may or may not reflect the asset lives of the property placed in service or if the investment decision of the firm is greatly altered by the absence of bonus depreciation.

²⁷ This assumes the change in current year business cash flow does not alter other current year economic outcomes for the business.

²⁸ Returns filed by regulated investment companies on Form 1120-RIC and by real estates investment trusts on Form 1120-REIT are not included.

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Bonus Depreciation by Gross Receipts

The next two tables show the amount of bonus depreciation claimed by businesses categorized by their gross receipts in a given tax year. For purposes of the tables, gross receipts are reported net of returns and allowances. Specifically, gross receipts are categorized by amounts reported on line 1c of Form 1120, *U.S. Corporation Income Tax Return*; line 1c of Form 1120S, *U.S. Income Tax Return for an S Corporation*; line 1c of Form 1065, *U.S. Return of Partnership Income*; and line 3 of Form 1040 Schedule C, *Profit or Loss from Business*.

Table 11 shows bonus depreciation deductions claimed by C corporations by gross receipts for tax years 2018 through 2022. More than 80 percent of the bonus depreciation deductions claimed during tax years 2018 through 2022 were claimed on corporate returns with more than \$1 billion in gross receipts.

Table 11 - Bonus Depreciation Deductions by Size of Gross Receipts, C Corporations
Billions of Dollars

Receipts	2018	2019	2020	2021	2022	2018-2022	Percent
All Businesses	507.9	565.0	452.8	544.6	628.4	2,698.6	100.0%
Receipts > \$1 million	504.8	560.8	448.7	539.3	622.8	2,676.2	99.2%
Receipts > \$10 million	497.3	552.9	440.9	531.4	612.8	2,635.3	97.7%
Receipts > \$50 million	483.4	535.7	426.4	516.4	597.3	2,559.2	94.8%
Receipts > \$100 million	473.9	524.7	418.5	507.5	585.5	2,510.1	93.0%
Receipts > \$500 million	442.7	489.3	386.8	477.0	546.7	2,342.5	86.8%
Receipts > \$1 billion	423.4	455.6	366.1	443.6	522.6	2,211.3	81.9%

Table 12 shows bonus depreciation deductions claimed on all business tax returns by gross receipts for tax years 2018 through 2022.²⁹ More than 50 percent of the bonus depreciation deductions claimed during tax years 2018 through 2022 were claimed on business returns with more than \$1 billion in gross receipts.

²⁹ In many cases partnerships report components of net income on Schedule K that is not reported on page 1 of Form 1065. This is especially the case for financial and real estate partnerships.

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Table 12
Bonus Depreciation Deductions by Size of Gross Receipts, All Businesses
Billions of Dollars

Receipts	2018	2019	2020	2021	2022	2018-2022	Percent
All Businesses	829.2	953.1	842.9	980.2	1,160.6	4,766.1	100.0%
Receipts > \$1 million	737.0	834.7	706.3	805.4	955.9	4,039.3	84.8%
Receipts > \$10 million	688.5	777.2	645.1	735.0	881.3	3,727.0	78.2%
Receipts > \$50 million	627.5	711.3	585.8	670.7	809.2	3,404.5	71.4%
Receipts > \$100 million	596.5	677.7	558.3	636.1	767.5	3,236.1	67.9%
Receipts > \$500 million	522.7	584.6	481.1	554.8	667.9	2,811.0	59.0%
Receipts > \$1 billion	485.8	531.5	440.4	498.4	612.2	2,568.4	53.9%

Effective Dates

Table 13 presents estimates related to the 100-percent bonus depreciation enacted by Public Law 119-21. Public Law 119-21 makes permanent the allowance of a 100-percent bonus depreciation deduction for property acquired and placed in service after January 19, 2025, and the law was enacted on July 4, 2025. The staff of the Joint Committee on Taxation estimated this provision would reduce Federal fiscal year tax receipts by \$262.2 billion within the 2025 – 2029 Federal fiscal year period and \$362.7 billion within the 2025 – 2034 Federal fiscal year budget period. If the provision had been applied to property placed in service after July 4, 2025 (“Prospective only”), we estimate that Federal fiscal year tax receipts would be reduced by \$253.5 billion within the 2025 – 2029 Federal fiscal year period and \$359.6 billion within the 2025 – 2034 Federal fiscal year budget period.

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Table 13 - Revenue Estimates of 100-Percent Bonus Depreciation

<u>Item</u>	<u>Fiscal Years</u> <u>[Billions of Dollars]</u>											
	<u>2025</u>	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>	<u>2030</u>	<u>2031</u>	<u>2032</u>	<u>2033</u>	<u>2034</u>	<u>2025-29</u>	<u>2025-34</u>
As Enacted...	-33.5	-65.1	-65.2	-57.5	-40.8	-29.0	-21.6	-17.8	-16.3	-15.9	-262.2	-362.7
Prospective only.....	-17.5	-54.6	-74.0	-62.8	-44.6	-31.8	-23.1	-18.6	-16.6	-16.0	-253.5	-359.6
Difference....	16.0	10.5	-8.8	-5.3	-3.7	-2.8	-1.6	-0.8	-0.4	-0.1	8.7	3.0

NOTE: Details may not add to totals due to rounding.

I hope this information is helpful to you. If we can be of further assistance in this matter, please let me know.

Sincerely,



Thomas A. Barthold