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# QUALIFIED PRODUCTION PROPERTY:

## *From Factory Floor to Tax Advantage*

## For the First Time, Certain Base Building Assets Eligible for 100% Bonus Depreciation

Qualified Production Property (QPP) is any portion of U.S. non-residential real property that a taxpayer uses for a qualified production activity. For a limited time, QPP is eligible for 100% bonus depreciation under the One Big, Beautiful Bill Act (OB3). This is a significant win, but taxpayers must understand exactly which assets are potentially eligible.

### WHAT TYPES OF FACILITIES MAY CONTAIN QPP?

- Manufacturing
- Agricultural or chemical production
- Refining
- Food processing
- Packaging

### WHAT PARTS OF THE FACILITY QUALIFY AS QPP?

Think of areas where production actually happens inside an industrial facility – these portions of the base building may qualify as QPP. If production occurs throughout a facility – no offices, no warehouse space – the entire building shell may potentially qualify as QPP.

### *QPP-ELIGIBLE ASSETS IN PRODUCTION AREAS:*

- HVAC
- Electrical
- Plumbing (main supply, drain lines)
- Permanently affixed fire protection systems
- Built-in cranes or hoists
- Built-in conveyor systems

Additionally, for QPP to be in play, the facility in question must be owner-occupied. If the production activity is being performed by a tenant – even if that tenant is your own operating company – then associated assets are ineligible for QPP.

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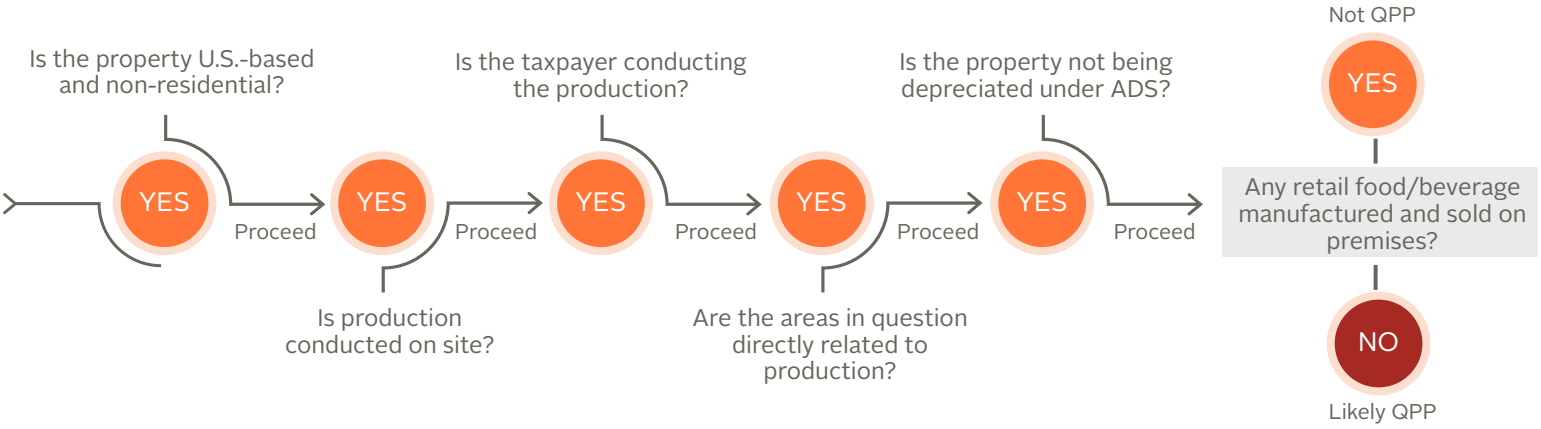
## WHAT DOESN'T QUALIFY AS QPP?

Most manufacturing facilities do include space earmarked for non-production activities. These spaces – and associated assets – are not QPP-eligible:

- Offices
- Sales or customer service areas
- Software engineering areas or data centers
- Parking
- Storage

Property depreciated using the Alternative Depreciation System (ADS) cannot qualify as QPP.

Additionally, if the facility manufactures a food/beverage and that food/beverage is also sold on the premises, associated assets cannot be considered QPP.




## 100% BONUS DEPRECIATION ON QPP

Available for new construction and acquisitions that meet requirements:

| | NEW CONSTRUCTION | ACQUISITION |
|---|---|---|
| Timing | Construction commences on/between 1/20/2025 – 12/31/2028 | Acquisition occurs on/between 1/20/2025 – 12/31/2028 |
| Placed-in-Service Before | 1/1/2031 | 1/1/2031 |
| Taxpayer History | Taxpayer has original use of property | Taxpayer never used the property before acquisition |
| Property History | | Property was never used in a "qualified production activity" on/between 1/1/2021 – 5/12/2025 |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If the appropriate criteria are met, 100% bonus may be captured using an election on a timely-filed return. Keep in mind that while 100% bonus depreciation on tangible personal property and land improvements has been made permanent by the OB3, *100% bonus on QPP is in effect for a limited time only.* The time to map construction timelines and consider placed-in-service dates is now.

## PAIRING QPP WITH COST SEGREGATION

A quality cost segregation study is the key to identifying and segregating QPP assets.

- The study will already break out 5, 7, and 15-year property, as well as any 15-year Qualified Improvement Property in a renovation scenario.
- Carving out the QPP is an additional step that requires a qualified engineer familiar with manufacturing plants and related technologies. Differentiating production spaces from non-production spaces may be challenging in certain situations – to maximize benefit while remaining compliant, an experienced engineer will be required.

Consider an example:

- Newly constructed snack food manufacturing facility
- Depreciable basis: $15.3M
- 80% of area is manufacturing, 20% is office space
- Engineers moved:
  - *25% to 5-year*
  - *2% to 15-year*
  - *23% to QPP*
- First-Year Tax Savings: $4.06M

## WANT TO LEARN MORE?

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