How Can Building Owners Utilize Section 179 Expensing for Roof Replacements?

(for the 2025 tax year)

This document is based on information published by the Internal Revenue Service, including Publication 946, *How To Depreciate Property*. NRCA does not intend to provide tax or legal advice, and nothing in this document should be construed as tax or legal advice. Businesses and building owners should consult with their individual tax and/or legal experts to determine whether the information in this document is relevant to their specific tax situation. Please also note that the IRS may provide additional guidance that changes the information provided here. You and your tax and/or legal advisors may want to monitor IRS activity in this regard.

Frequently Asked Questions:

1. What is Section 179 expensing?

According to the IRS, Section 179 is an electable deduction that allows businesses to deduct the full cost of certain equipment and property in the year the property is placed into service, rather than recovering the cost of the investment over many years under bonus or standard depreciation rules (*see* Publication 946, When does depreciation begin and end?).

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2. Who can use Section 179?

Businesses that buy qualifying equipment or property during the year may be able to use Section 179 – if their total purchases stay under certain dollar limits (*see* Publication 946, What property can be depreciated).

- According to the IRS, in most cases, the business must **own** the property and use it in business or income-producing activity.
- According to the IRS, typically, leased property is not eligible for Section 179. However, certain exceptions apply if the business retains “incidents of ownership” in the property.

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3. What kinds of property qualify?

- Tangible personal property (like machinery, buildings, equipment, and certain vehicles).
- Certain **real property improvements** for non-residential buildings, such as:
  - Roofs
  - HVAC systems
  - Fire protection and alarm systems
  - Security systems
- The property must be used for business and have a **determinable useful life** (it wears out or becomes obsolete) of more than 1 year.
- Land itself does **not** qualify.
- *See* Publication 946, What property can be depreciated, for additional information.

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4. Do roof replacements qualify?

Yes. According to the IRS, a new roof on a commercial building is considered an improvement and is treated as depreciable property. Normally, costs associated with acquiring real property or making improvements to real property are depreciated over a 39-year period. Under Section 179, building owners may have the ability to immediately expense the full cost of the roof replacement in one year – if the total amount of qualifying purchases remains under certain dollar limits (*see* Publication 946, How do you treat repairs and improvements?).

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5. What are the dollars limits for the 2025 tax year?

For property placed in service **after December 31, 2024**:

- **Maximum Section 179 deduction:** $2.5 million
- **Phase-out threshold:** $4 million (reduced dollar-for-dollar once this limit is passed)
- **Fully eliminated:** $6.5 million in qualifying purchases or more
- Amounts will be adjusted for inflation starting in 2026.

(*See* Public Law 119-21)

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6. How does the phase-out work?

If your total qualifying purchases (QP) are (for the 2025 tax year):

1. **$4 million or less** → Full $2.5 million deduction is available.
2. **Over $4 million** → $2.5 million deduction limit is reduced by (QP – $4 million).
3. **$6.5 million or more** → No Section 179 deduction allowed (QP - $4.5 million > $2.5 million deduction limit).

(*See* Public Law 119-21)

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7. Are there yearly or lifetime caps on Section 179 deductions?

No. According to the IRS, Section 179 is an annual income tax deduction, and the limits apply **per tax year** – there is no lifetime cap (*see* Publication 946, Overview of Depreciation).

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8. How does bonus depreciation fit in?

If you reach the Section 179 limit or phase out completely, certain costs may be subject to the applicable bonus depreciation or standard cost recovery rules. Typically, roof replacements do not qualify for bonus depreciation. In instances where the Section 179 limit is reached, the allowable deduction is often applied first to items that do not qualify for bonus depreciation (e.g., roof replacements).

Public Law 119-21 enhanced the bonus depreciation rules (e.g., 100% for qualifying property placed in service from Jan. 20, 2025, through Dec. 31, 2029) and created a new temporary category for qualified production property (QPP) that is eligible for bonus depreciation. Businesses should consult their tax professionals to understand how these enhanced and expanded rules for bonus depreciation impact their tax situation as well.

For more information on bonus depreciation under Public Law 119-21, view the summary here.

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9. Can you provide examples for the phase-out rules (2025 tax year)?

The examples below are provided to illustrate how the Section 179 deduction limits and phase-out may operate in certain circumstances. These are examples only. The examples are intentionally generic in nature and are not intended to apply—and should not be construed to apply—to your specific tax situation. Other factors not included in these examples may have an impact on the dollar amount of qualifying purchases eligible for expensing under Section 179. As advised above, you should consult your individual tax and/or legal advisor concerning your tax situation and the availability of Section 179's benefits to you.

Example 1 – No phase-out:

- Qualifying Purchases (QP): $3.9 million (includes $600,000 roof replacement)
- Section 179 phase-out: **None** (QP ≤ $4 million)
- Section 179 deduction (max): **$2.5 million**

Example 2 – Partial phase-out:

- Qualifying Purchases (QP): $5.2 million (includes $600,000 roof replacement)
- Section 179 phase-out: **$1.2 million** (QP - $4 million)
- Section 179 deduction (max): **$1.3 million** ($2.5 million limit – phase-out amount)

Example 3 – Full phase-out:

- Qualifying Purchases (QP): $6.7 million
- Section 179 phase-out: **Full phase-out** (QP - $4 million > $2.5 million limit)
- Section 179 deduction (max): **$0.00** (note: bonus depreciation and standard cost recover rules apply)

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10. Where can I learn more?

Read the IRS's **Publication 946**, *How To Depreciate Property*, for full details: https://www.irs.gov/publications/p946.