How to Use the New 100% Manufacturing Facility Deduction to Maximize Tax Savings

Today, we're walking through an important change that can create significant upfront tax savings for U.S. manufacturers, a new 100% deduction for qualified production property. If your business is planning to build or expand a manufacturing facility, here's why this could be a game changer.

Under old tax law, investments in non-residential real estate like factories, had to be depreciated over 39 years. This created a large upfront cost, but a tax benefit that was stretched out over many years. Now, an investment in qualified production property can lead to an upfront tax benefit, as businesses can elect to expense costs at 100% in the year that they are placed in service, instead of otherwise depreciating over 39 years. That accelerated tax benefit boosts cash flow and can free up capital quicker for other investments or operations.

So what counts as qualified production property? Qualified production property is defined as U.S., non-residential real property used as an integral part of a qualified production activity, like manufacturing, refining, or agriculture production. In addition, the property's original use must begin with a taxpayer, and the taxpayer must elect to treat the property as qualified production property on their tax return. Qualified production property specifically excludes any portion of the building that is used for offices, administrative services, lodging, parking, sales, or other functions unrelated to a qualified production activity.

Timing is important. In order to qualify, construction of the property must begin after January 19, 2025, and before January 1, 2029. The property needs to be placed in service before January 1, 2031. Taxpayers can meet the original use and construction date requirements for an existing property if they acquired such existing property within the same timeframe and the property was not used in qualified production activity between January 1, 2021 and May 12, 2025.

If manufacturing is central to your operations, here are some next steps. Review upcoming capital projects to see whether any planned construction might qualify. Talk with your tax advisor about making the election to claim this deduction. Be aware of recapture rules: If you change how the property is used, within 10 years of placing it in service, you will need to recapture some of the expensing benefit.

If you'd like help analyzing whether your projects qualify, or if you need help assessing tax implications, let us know. SVA is happy to work with you.

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