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Qualified Production Property: What CPAs Need to Know Now

As the IRS works to formalize guidance on **Qualified Production Property (QPP)** under **IRC §168(n)**—created by the One Big Beautiful Bill Act (P.L. 119-21)—many manufacturing clients are looking ahead to what could become one of the most impactful tax incentives available over the next several years.

For CPAs advising clients in manufacturing, production, or refining industries, understanding the requirements, limitations, and planning considerations around QPP is essential. The opportunity for **100% bonus depreciation** on qualifying nonresidential real property is significant, but the rules are technical, the election is irrevocable, and strategic planning is critical.

Below is a detailed overview to help CPAs evaluate QPP readiness, identify eligibility issues early, and map out a defensible approach to implementation.

What Qualifies as QPP?

QPP allows taxpayers to claim **100% bonus depreciation** for a portion of newly constructed or acquired nonresidential real property used in a qualified production activity.

A property must meet all the following:

Statutory Requirements – Newly Constructed Property

Under **§168(n)(2)(A)**, QPP applies to the portion of nonresidential real property that is:

- Used as an integral part of a qualified production activity
- – Manufacturing, production, or refining of tangible personal property
- – Must involve a substantial transformation of the product
- Located in the U.S. or U.S. territories
- Original use begins with the taxpayer
- Construction begins between 1/20/2025 and 12/31/2028
- Placed in service before 1/1/2031
- – Extensions possible for “acts of God.”

Acquired Properties

Acquired buildings can qualify only if:

- Acquired between 1/19/2025 and 12/31/2028
- Not used in qualified production by any taxpayer between 1/1/2021 and 5/12/2025
- Not previously used by the acquiring taxpayer
- Purchased in an arm’s-length transaction
- Meets the binding written contract rules



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What Does Not Qualify?

Certain areas of a property automatically fall outside the scope of QPP, including any portion used for:

- Offices or administrative services
- Sales functions
- Lodging
- Parking
- Research or software development
- Engineering
- Any other non-production-related activities

These exclusions are critical for CPAs performing allocations or coordinating with cost segregation professionals.

Tax Treatment and Related Considerations

Alternative Depreciation System (ADS)

- Taxpayers **required** to use ADS for production property are **ineligible** for QPP.
- Taxpayers who **elect** ADS voluntarily may still treat QPP as separate nonresidential real property.

AMT

QPP qualifying property receives **full bonus depreciation** with **no AMT adjustment**—a meaningful benefit for affected clients.

Syndicated Transactions

Original use may begin with the final purchaser when:

- A lessor places property in service
- Sells within 3 months
- The lessee remains unchanged during the sale chain

CPAs should review lease structures carefully to avoid inadvertent disqualification.

Recapture

If the property ceases being used in a qualified

- IRC §1245 recapture, not §1250
- Ordinary income recapture based on the original basis of the QPP portion

Prior planning will help protect clients from recapture.

Expected IRS Guidance

The IRS is anticipated to refine several technical areas. Based on historical regulatory approaches, CPAs may see concepts adapted from:

- ITC regulations
- TCJA framework
- Advanced Manufacturing Investment Credit under **§48D**

Likely topics for clarification include:

- Cost allocation for roofs, foundations, concrete floors, and exterior walls
- Election documentation and required disclosures
- Verification of arm's-length acquisition
- Treatment of OpCo/PropCo structures and related-party usage

Early understanding of likely positions helps CPAs prepare clients and avoid scrambling once regulations are finalized.

Action Steps for CPAs

Now is the ideal time to prepare clients who may benefit. Recommended steps include:

1. Identify potentially eligible properties under the construction or acquisition timelines.
2. Evaluate production activity thresholds—is the transformation substantial?
3. Engage cost segregation experts to model QPP allocations and evaluate interplay with QIP.
4. Assess NOL limitations and determine the feasibility of offsetting taxable income.
5. Model recapture exposure for clients with volatile or uncertain production footprints.
6. Build an election strategy ensuring compliance in year one, when the election must be made.



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Because the QPP election is **irrevocable**, a proactive plan is not optional—it is required for a defensible tax position.

Conclusion

QPP presents a meaningful opportunity for taxpayers in manufacturing and production—but only for those who plan early and execute carefully. CPAs play a central role in evaluating eligibility, structuring the election, and mitigating long-term risks like recapture.

With construction timelines already approaching the qualifying window, now is the time to help clients analyze whether QPP should be part of their long-term tax strategy.