Strategic depreciation planning for industrial manufacturers

How the 2025 "Big Beautiful Bill" may affect facility investments

By Mike Walsh

In 2025, Congress passed comprehensive tax legislation commonly referred to as the "Big Beautiful Bill." Among its many provisions, the legislation includes changes and extensions to depreciation and expensing rules that may influence how industrial manufacturers evaluate facility renovations, expansions, and new plant construction.

For industrial owners, one of the most important takeaways is that the timing, classification, and planning of capital investments can meaningfully influence overall capital and cash-flow outcomes. Decisions made early, often before design is finalized or construction begins, may affect whether certain assets are expensed immediately, depreciated more quickly, or written off over longer timeframes.

This paper highlights depreciation-related considerations most relevant to industrial owners and explains why early coordination between ownership, tax advisors, and the engineering/design team can support more informed decision-making that can influence financial outcomes long after construction is complete.

Overview of the legislation

The 2025 legislation builds on prior tax frameworks familiar to many manufacturers. From a facilities perspective, the legislation:

- Extends or restores favorable depreciation treatment for certain capital assets
- Expands depreciation considerations tied to manufacturing and production activities
- Reinforces the importance of placed-in-service timing
- Interacts with renovation, improvement, and energy-related investment decisions

The following changes to key depreciation concepts for industrial owners also are important to understand.

Bonus depreciation: The bill allows accelerated expense of qualifying assets to improve near-term cash flow. This may include process and production equipment, certain electrical and mechanical systems, automation and material handling infrastructure, and specialized manufacturing-related systems.

Qualified improvements and production property: Expanded depreciation considerations for certain manufacturing-related building improvements allow projects with similar construction costs to experience very different capital outcomes depending on how assets are planned, classified, and documented.

Section 179 expensing: Immediate write-off opportunities are available for qualifying capital investments—subject to limits—that may complement bonus depreciation strategies.

Cost segregation: Asset classification methodology is influenced by design intent, system separability, and construction documentation, which can accelerate depreciation. Opportunities are often influenced by design intent and documentation, not just accounting analysis performed after construction.

What Drives Capital Outcomes

Key facility decisions that can influence cash flow and depreciation timing

Timing
Placed-in-service timing affects when benefits begin.

Asset Definition
How assets are defined and documented impacts classification.

Phasing & Commissioning
Phased start-up can unlock earlier benefits.

These decisions are often made before construction begins.

Project Snapshot

Owner: U.S.-based industrial manufacturer
Project: Production line expansion with facility renovation
Capital Investment: $40 million

Approach A – Early Planning and Phased Commissioning

The owner engaged the engineering team early to align facility design, construction phasing, and commissioning strategy.

Key Characteristics:

- Asset definition aligned during design
- Functional system separation where appropriate
- Incremental placed-in-service dates through phased startup

Observed Outcome:

- Depreciation benefits realized earlier
- Improved near-term cash flow
- Larger portion of the investment was eligible for accelerated depreciation

Approach B – Late Review After Construction

Depreciation considerations were evaluated after construction completion.

Key Characteristics:

- Asset classification evaluated after construction
- Systems installed as fully integrated building infrastructure
- Single placed-in-service date

Observed Outcome:

- Depreciation benefits delayed
- More costs defaulted to longer depreciation schedules
- Identical project costs, fewer qualified assets

Key Insight:

The difference was not what was built, it was *when* and *how* decisions were made. Early planning and documentation can materially influence capital outcomes.

When decisions matter most

Across all depreciation strategies, timing consistently drives outcomes. Placed-in-service dates, construction phasing, and commissioning strategy can materially influence capital outcomes. Partial or phased start-up and commissioning may create flexibility within large projects by placing portions of a facility, or certain systems, in service earlier. These approaches illustrate the relationship between timing and outcomes.

Approach A: Early planning preserves flexibility and allows benefits to start sooner.

- Asset definition, phasing, and start-up decisions are made early.
- Systems are intentionally separated.
- Portions of the project are placed in service incrementally.

Approach B: Benefits are delayed and more assets default to longer depreciation schedules.

- Design and construction proceed without much attention to depreciation implications.
- Asset classification is evaluated after construction.
- Everything is placed in service at once.

An even worse approach would be late decision-making, causing the process to be rushed later in the life cycle. This would result in documentation gaps and systems being integrated without clear separation, therefore resulting in some opportunities being lost in their entirety.

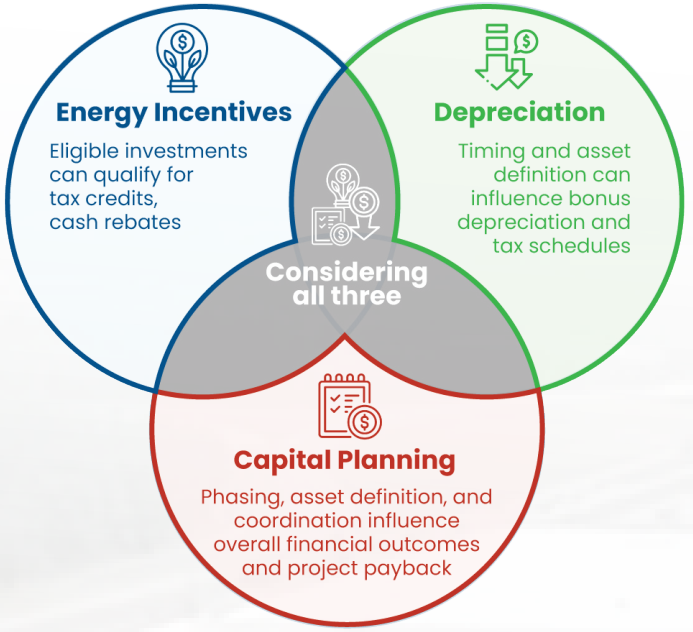
Energy and depreciation considerations

Depreciation is often viewed as an accounting consideration addressed after construction. In practice, however, many of the most influential factors are established much earlier. Engineering and facility planning decisions can influence:

- Asset definition and separability
- Documentation quality
- Phasing and commissioning options
- Long-term operational flexibility

When facility planning aligns with an owner's broader business objectives, projects are better positioned to support both operational performance and capital efficiency.

By engaging and coordinating early with their tax advisors and project teams, industrial owners can align facility investments with operational, financial, and long-term business objectives and understand how facility planning and design decisions may affect capital outcomes.



These elements are interconnected and best considered holistically.

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IMEG supports industrial clients in their design decisions but does not provide tax or legal advice. This paper is intended only to highlight planning considerations and support informed discussions with owners' tax and financial advisors.

Mike Walsh, PE, LEED AP, is IMEG's Senior Director of Industrial and a managing principal. He has more than 30 years of experience in the AEC industry and project management and has worked with hundreds of clients in the industrial market across the U.S.