Proposed Tax Provisions under H.R. 7024:

Financial Implications for the Hospitality Industry

by Gizem Kilic, Michael T. Paz, and Jessica Brady

H.R.7024, the Tax Relief for American Families and Workers Act of 2024, was introduced in the 118th Congress on January 17, 2024. The House approved the bill on January 31, 2024. The legislation is now pending before the Senate. The legislation will make tax-related changes in areas that include business tax deductions and credits, the child tax credit, special taxation rules for certain residents of Taiwan, tax relief for certain Federal disasters, low-income housing credit, and other tax incentives. This report focuses on three tax incentives proposed under the title "American Innovation and Economic Growth," applicable to the hospitality industry. The three incentives are **(1)** the extension of the 100-percent bonus depreciation, **(2)** an increase in limitations on expensing of depreciable business assets, and **(3)** extension of the allowance for depreciation, amortization, or depletion in determining the limitation on business interest deductions.

Exhibit 1

Bonus depreciation applicable percentage for qualified property in general/specific plants

Placed in Service Year	Present Law	Proposed Legislation*
September 28, 2017 – December 31, 2022	100%	100%
January 1, 2023 – December 31, 2023	80%	100%
January 1, 2024 – December 31, 2024	60%	100%
January 1, 2025 – December 31, 2025	40%	100%
January 1, 2026 – December 31, 2026	20%	20%
January 1, 2027 – December 31, 2027	None	None
January 1, 2028, and thereafter	None	None

* Per Joint Committee on Taxation, 2024. https://www.taxnotes.com/research/federal/legislative-documents/congressional-joint-committee-prints/jct-describes-tax-relief-american-families-and-workers-act/7j3dj

Extension of 100-percent Bonus Depreciation

The 100-percent bonus depreciation allows companies to deduct the full amount of depreciation for qualified property placed in service in a taxable year for federal income tax purposes under Section 168(k), special allowance for certain property [26 USC § 168(k), 26 USC § 167]. Under current law, the bonus depreciation starts to phase out by 20 percentage points after January 1, 2022, for a qualified property. A qualified property must be eligible for the modified accelerated cost recovery system (MACRS) with a recovery period of 20 years or less, and property that uses the alternative depreciation system (ADS) may not take the bonus depreciation [26 USC § 168]. The depreciation percentage changes according to the recovery period, and hotel property improvement plans are depreciated over 15 years under qualified improvement property (QIP) if acquired and placed in service between September 28, 2017, and December 31, 2022 [26 USC § 168(e)(6)]. As shown in Exhibit 1, the proposed legislation would extend the elective 100-percent bonus depreciation through the end of the 2025 calendar tax year on a retroactive basis for a qualified property [H.R 7024, 2024].

Increase in Limitations on Expensing of Depreciable Business Assets

Under the section 179 expensing allowance in 2024, companies have the option to deduct or expense property costs up to $4,270,000 for qualifying property instead of depreciation deduction recovery [26 USC § 179)]. Current law limits the maximum deduction to $1,160,000 with a phaseout threshold of $2,890,000 for taxable years beginning in 2023. If the deduction amount exceeds the threshold, then it is reduced to $2,890,000 [26 USC § 179(b)]. The proposed legislation would increase the maximum deduction limit from $$1,160,000 to $1,290,000 and the phaseout threshold from $2,890,000 to $3,220,000 for qualifying property placed in service in taxable years beginning after 2023 [H.R. 7024, 2024]. Qualifying property includes depreciable tangible personal property and qualified real property, such as qualified improvement property and improvements such as heating, ventilation, and air-conditioning (HVAC) property, fire protection and alarm systems, and security systems [26 USC § 168(e), 26 USC § 179].

For example, assume that during 2024, a calendar-year taxpayer purchases and places in service $3,900,000 of section 179 property. The proposed $1,290,000 section 179(b)(1) maximum allowable depreciation for 2024 will be reduced by the excess section 179 property cost amount of $680,000 ($3,900,000 – $3,220,000 cost threshold). Thus, the taxpayer's maximum allowable section 179 depreciation will be $610,000 ($1,290,000 maximum – $680,000 excess). The remaining $3,290,000 in depreciable basis ($3,900,000 – $610,000 section 179 expense) may be eligible for bonus depreciation under section 168(k) depending on the type of equipment.

Extension of the Allowance for Depreciation, Amortization, or Depletion in Determining the Limitation on Business Interest

Under current law, a company can deduct 30 percent of its earnings before interest and taxes (EBIT) as business interest under section 163(j), business interest expense limitation [26 USC § 163(j)]. After January 1, 2022, deductions for depreciation, amortization, or depletion are not added back in the calculation of adjusted taxable income (ATI) [26 USC § 163(j)]. For the period from September 28, 2017–December 31, 2022, business owners could use an EBITDA-based interest deduction limitation, which phased out on January 1, 2022. Transitioning from EBITDA- to EBIT-based deductions led to a significant tax increase for business owners. H.R. 7024 would extend the use of EBITDA for the deduction limitation to calendar tax years until January 1, 2026, and allow businesses to take advantage of the tax provision retroactively for 2022 and 2023 [H.R 7024, 2024].

Tax Savings through Proposed Legislation

Examples for section 179 and bonus depreciation changes

Scenario: On January 1, Rooms Corp., a calendar-year taxpayer (owner) operating a large hotel resort property, purchased and placed in service qualified commercial kitchen equipment at a cost of $2,750,000. This equipment is intended to improve multiple kitchen facilities located across the entire resort, functioning as catering and on-premises restaurants. The property qualifies for the expensing election under section 179 and is twenty-year property under section 168(e) [26 USC § 168(e), 26 USC § 179]. No other section 179 property is purchased in 2024. Rooms depreciates the property under GDS, using the 200-percent declining balance method, a seven-year recovery period, and the half-year convention.

Example 1: ***Depreciation calculation under current rules***

Rooms elects to expense the machinery under section 179 and takes the maximum allowable deduction (for 2024) of $1,290,000, reducing the depreciable basis of the equipment to $1,460,000. Rooms then applies the 2024 bonus rate of 60 percent to the $1,460,000 depreciable basis, giving Rooms a bonus depreciation deduction of $876,000 ($1,460,000 * 0.6) and a remaining depreciable basis of $584,000. The depreciation deduction allowed in 2024 for the remaining adjusted depreciable basis of $584,000 is $83,454 ($584,000 multiplied by the annual depreciation rate of 0.1429 for recovery year 1).

Depreciation expensed in 2024 under current rules: **$2,249,454**

Example 2: ***Depreciation calculation under proposed rules***

Rooms elects to expense the machinery under section 179 and takes the maximum allowable deduction (for 2024) of $1,290,000, reducing the unadjusted depreciable basis of the equipment to $1,460,000. Rooms then applies the 2024 bonus rate of 100 percent to the $1,460,000 unadjusted depreciable basis, giving Rooms a bonus depreciation deduction of $1,460,000. No consideration of MACRS depreciation is required, as the asset has been fully depreciated.

Depreciation expensed in 2024 under proposed rules: **$2,750,000**

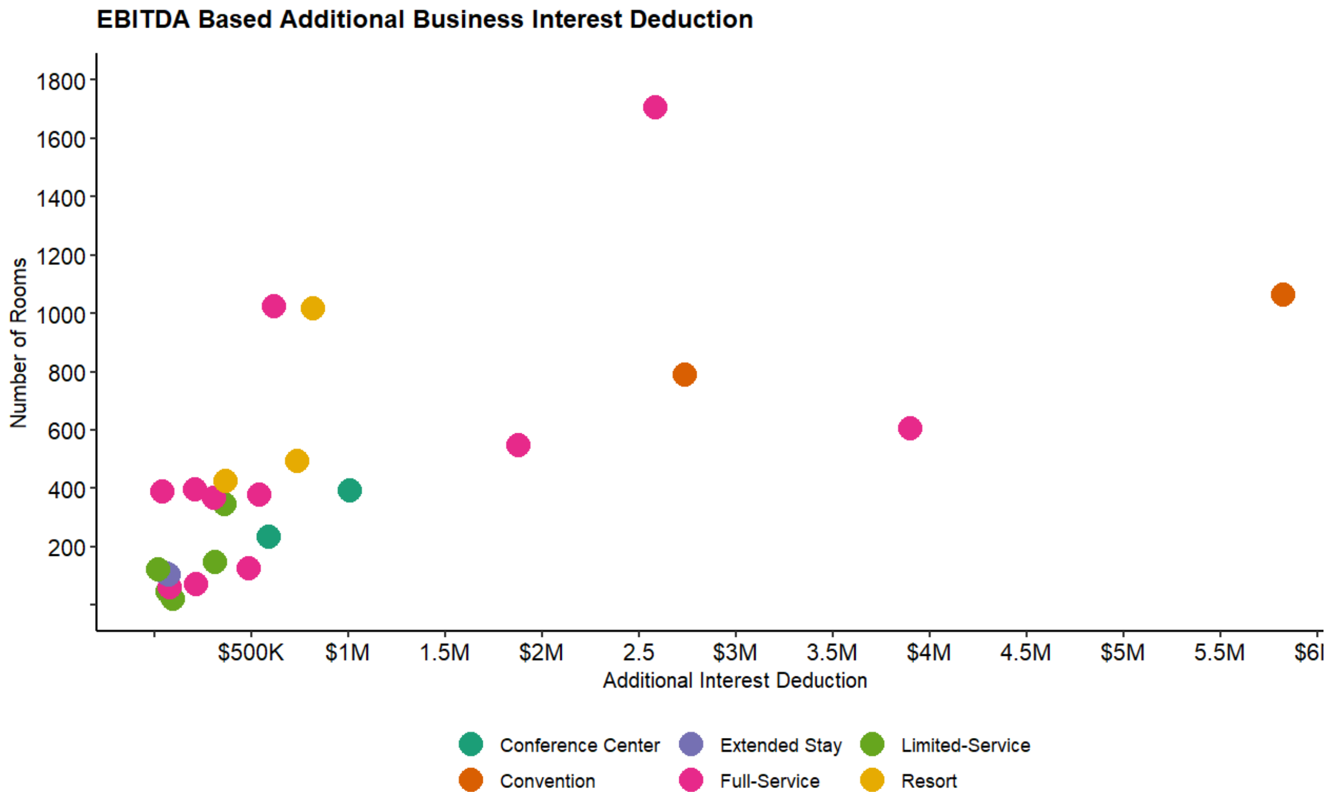
The proposed rule changes to section 179 and bonus depreciation result in $500,546 in additional depreciation expense claimed and related tax savings. Assuming a 35-percent marginal tax rate, additional cash tax savings under proposed legislation would be $175,191 relative to current regulations.

Examples for section 163(j) allowable interest expense

The proposed changes to section 163(j) allowable interest expense would switch from an EBIT-based calculation of allowable interest to an EBITDA-based calculation. (To review, EBITDA is defined as EBIT plus depreciation and amortization expense.) The limit for allowable interest expense is 30 percent of either EBIT (under current law) or EBITDA (under proposed regulation), not to be set lower than zero [26 USC § 1.163(j)].

Various factors affect the additional business interest deduction that leads to tax savings through EBITDA-based allowable interest expense. Primary among them is the amount of depreciation and amortization expense reported in a company's profit and loss statement (P&L). Companies with higher levels of long-term assets (e.g., property, plant, and equipment), particularly hotels and other asset-intensive businesses, will derive greater benefits from a shift back to EBITDA-based allowable interest expense. Given that a non-trivial number of businesses have negative EBIT but positive EBITDA, a shift back to EBITDA-based calculations will allow a larger number of businesses to expense interest overall.

Exhibit 2



We obtained P&L data for 25 hotels from CBRE Hotels Research Trends® in the hotel industry database. These data included information about average daily rate (ADR), depreciation and amortization expense, and earnings before interest and taxes (EBIT). We used these data to calculate EBITDA and the proposed additional allowable interest expense for each property in our sample. Given stable inflation and performance levels prior to the COVID-19 pandemic, we used data from 2018 and 2019. The dataset encompasses a wide range of different sizes of hotels, property type, chain class, and depreciation and amortization levels.

Based on our analysis, hotels would derive significant benefit from adopting the proposed EBITDA-based interest deduction in terms of tax savings. In our sample data depicted in the graph in Exhibit 2, hotels that have higher depreciation and amortization and operating income ended up with the highest tax benefits. This sample suggests that the number of hotel rooms is an important factor in these calculations, and large-scale hotels tend to have higher depreciation and amortization. Given that many hotels will have concurrently benefited from accelerated depreciation (section 179) and bonus depreciation per the legislation, they will have lower levels of depreciation expense during our sample period.

Hotels in our dataset derive comparatively modest benefits from the change to EBITDA-based interest allowances. Nevertheless, the benefits from allowing EBITDA-based interest deductions are not only higher than current period interest deductions, but

Exhibit 3

Analysis of EBITDA-based interest deductions

Rooms	ADR[a]	Property Type	Depreciation, Amortization	EBITDA	EBIT	EBITDA Deduction[b]	EBIT Deduction[c]	Additional Deduction[d]
24	$ 179	LS	$ 307,657	$ 396,109	$ 88,452	$118,832.79	$ 26,536	**$ 92,297**
49	$ 198	LS	$ 243,812	$ 222,455	$ (21,357)	$ 66,737	$ -	**$ 66,737**
62	$ 273	FS	$ 261,888	$ 1,769,064	$ 1,507,176	$ 530,719	$ 452,153	**$ 78,566**
74	$ 243	FS	$ 713,610	$ 1,702,343	$ 988,733	$ 510,703	$ 296,620	**$ 214,083**
104	$ 85	ES	$ 242,908	$ 648,609	$ 405,701	$ 194,583	$ 121,710	**$ 72,872**
108	$ 146	ES	$ 202,341	$ 2,031,779	$ 1,829,438	$ 609,534	$ 548,831	**$ 60,702**
125	$ 56	LS	$ 58,841	$ 115,764	$ 56,923	$ 34,729	$ 17,077	**$ 17,652**
126	$ 464	FL	$ 1,612,453	$ 8,267,812	$ 6,655,359	$ 2,480,343	$ 1,996,608	**$ 483,736**
149	$ 120	LS	$ 1,035,265	$ 1,908,328	$ 873,063	$ 572,498	$ 261,919	**$ 310,579**
235	$ 147	CFS	$ 2,628,973	$ 1,957,892	$ (671,081)	$ 587,368	$ -	**$ 587,368**
347	$ 148	LS	$ 1,199,086	$ 5,436,896	$ 4,237,809	$ 1,631,069	$ 1,271,343	**$ 359,726**
368	$1,239	FS	$ 2,378,498	$ 1,004,984	$ (1,373,514)	$ 301,495	$ -	**$ 301,495**
380	$ 88	FS	$ 1,791,069	$ 8,341,396	$ 6,550,327	$ 2,502,419	$ 1,965,098	**$ 537,321**
390	$ 86	FS	$ 908,542	$ 124,716	$ (783,826)	$ 37,415	$ -	**$ 37,415**
393	$ 154	CFC	$ 3,344,907	$ 7,664,012	$ 4,319,105	$ 2,299,204	$ 1,295,732	**$1,003,472**
397	$ 85	FS	$ 1,086,088	$ 692,959	$ (393,130)	$ 207,888	$ -	**$ 207,888**
425	$ 273	RS	$ 1,218,460	$12,885,146	$11,666,686	$ 3,865,544	$ 3,500,006	**$ 365,538**
496	$ 90	RS	$ 2,436,533	$ 4,918,967	$ 2,482,434	$ 1,475,690	$ 744,730	**$ 730,960**
550	$ 213	FS	$ 6,248,876	$12,048,549	$ 5,799,673	$ 3,614,565	$ 1,739,902	**$1,874,663**
607	$ 301	FS	$ 12,980,595	$13,895,858	$ 915,263	$ 4,168,757	$ 274,579	**$3,894,178**
790	$ 341	CVC	$ 9,112,785	$45,512,714	$36,399,929	$13,653,814	$ 10,919,979	**$2,733,836**
1,020	$ 114	RS	$ 2,709,074	$ 9,752,727	$ 7,043,653	$ 2,925,818	$ 2,113,096	**$ 812,722**
1,025	$ 192	FS	$ 3,542,955	$ 2,052,787	$ (1,490,168)	$ 615,836	$ -	**$ 615,836**
1,066	$ 185	CVC	$ 19,394,922	$27,383,315	$ 7,988,393	$ 8,214,994	$ 2,396,518	**$5,818,477**
1,706	$ 138	FS	$ 8,602,468	$ 9,834,661	$ 1,232,193	$ 2,950,398	$ 369,658	**$2,580,740**

Notes: a: Rounded ADR; b: Allowable Interest Deduction under EBITDA, Proposed Legislation; c: Allowable Interest Deduction under EBIT, Current Law; d: Increase in Interest Deduction Allowed by Switching back to EBITDA, Proposed Legislation. *Key:* LS=Limited-Service; FS=Full-Service; RS=Resort; CVC=Convention Center; ES=Extended Stay; CFC=Conference Center
Source: CBRE, CHR, and AHLA.

also include the incentive such deductions provide for purchasing new equipment (see Exhibit 3). Data from the 2023 ISHC capital expenditure report confirms this intuition, showing significant growth in total capital expenditures within the hotel and lodging industry, from $12.4 billion in 2017 to $18.9 billion in 2020.[1] This increase coincides with the introduction of 100-percent bonus depreciation and the proposal to extend EBITDA-based interest expense allowances. Our calculations show that the maximum increase in interest deduction allowed in the sample data belonged to a convention hotel with more than $5,818,477 in tax savings, followed by a large-scale full-service hotel with more than $3,894,178 in tax savings. ■

[1] International Society of Hospitality Consultants. (2023). A Study of Capital Expenditures in the Hotel Industry

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Gizem Kilic is the Director of Industry Research at Government Affairs for the American Hotel and Lodging Association (AHLA). She began her Master of Science degree and later transferred to the PhD program at the Nolan School of Hotel Administration, SC Johnson College of Business, expecting to graduate in 2024. Her research primarily focuses on sustainability, food waste reduction, and food recovery policies across the United States. Prior to pursuing graduate degrees, she served as the Events Team Leader at Grand Hyatt Istanbul and as a Corporate Leadership Trainee at Hyatt EMEA. She worked in food and beverage and sales for major brands such as Four Seasons, W Hotels, and Kempinski in Istanbul before joining Hyatt. Gizem holds dual degrees in Tourism and Hospitality Management, and Gastronomy and Culinary Arts from Yeditepe University in Istanbul, Turkey.

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