Q&A on Motorsports Depreciation

What is "Class 80"?
Current tax law establishes depreciation periods for business assets in recognition that as property ages it loses value and must ultimately be replaced. The IRS has established Asset Class 80.0, "Theme and Amusement Parks," which includes "assets used in the provision of rides, attractions, and amusements in activities defined as theme and amusement parks . . . [which are] combinations of amusements, rides, and attractions which are permanently situated on park land and open to the public for the price of admission" (IRS Rev. Proc. 87-56, 1987-2 C.B. 674). Asset Class 80.0 provides for a 7-year depreciation period for all assets within park boundaries.

Why does the motorsports industry have a special tax treatment?
Because of the similarities in design and structure, the motorsports industry has used Class 80.0, the same tax treatment as theme and amusement parks, since 1986 Tax Reform. In 2004, after questions by the IRS created uncertainty in the industry, Congress clarified that "motorsports entertainment complexes" are classified as eligible for 7-year expensing for qualified investments, the same treatment they had reliably used for 20 years. This provision lies in Section 168(i)(15) of the US Code and defines a motorsports entertainment complex as, including, but not limited to, ticket booths, race track surfaces, suites and hospitality facilities, grandstands and viewing structures, props, walls, facilities that support the delivery of entertainment services, etc. This legislation has been renewed by Congress annually or biannually with other temporary tax provisions since 2004.

Why does motorsports need a seven-year depreciation period?
Like theme and amusement parks, motorsports entertainment complexes use the seven-year period to reinvest in facilities and organization to create jobs, make safety improvements, and enrich the surrounding economies, many of which are in rural areas. Without the seven-year deduction, tracks would be inhibited in improving their business and face a serious disadvantage when compared to other sports and entertainment facilities in the competition for the entertainment dollar.

Are racetracks funded in the same manner as stadiums and ballparks?
No. The construction and renovation of other sports stadiums and ballparks are often funded in part by taxpayer dollars, or these projects receive some other form of fiscal relief from the government. Racetracks are almost always completely privately funded with no government assistance.

What would happen if motorsports depreciation is not extended or made permanent by Congress?
Roughly one third of all motorsports assets would be reclassified under the 39-year depreciation period and two thirds would fall under the 15-year period. This results in the deceleration of some track assets by as much as 82%. Reclassification could be devastating for

racetracks. Not only would it inhibit track owners' ability to continuously reinvest in their businesses, but it would cause tracks to lose full access to the bonus depreciation incentive included in the Tax Cuts and Jobs Act of 2017 (TCJA).

The trickle-down effects could be disastrous for racetracks and surrounding communities. Large-scale track events generate a significant amount of revenue for local track markets, and the relationships between motorsports complexes, vendors, and neighboring establishments are a central aspect of the entertainment businesses. Reclassification could immediately result in as much as a 25% motorsports reinvestment loss, as well as threaten important community relationships and negatively affect the jobs and economic boon these entertainment complexes are fortunate enough to provide.

What is bonus depreciation?
Over the years, Congress has made various incentives available to help speed up the depreciation process. "Bonus depreciation" allows businesses to immediately expense a percentage of the qualified improvement property instead of claiming the loss of value over time. While the new law is still unclear, bonus depreciation has applied for qualified improvement property with a depreciable life of 20 years or shorter. This has included our racetrack improvements and renovations.

How was bonus depreciation expanded?
The Tax Cuts and Jobs Act significantly expanded bonus depreciation. For qualified property placed in service between September 28, 2017, and December 31, 2022 (or by December 31, 2023, for certain property with longer production periods), the bonus depreciation percentage increased to 100%. This deduction is allowed for both new and used qualifying property. Beginning in 2023, bonus depreciation is scheduled to be reduced 20 percentage points each year. So, for example, it would be 80% for property placed in service in 2023, 60% in 2024, etc., until it would be fully eliminated in 2027. For certain property with longer production periods, the reductions are delayed by one year. The legislation also created a special carve-out of 100% bonus depreciation for qualified film, television and live theatrical productions placed in service on or after September 28, 2017.

Are motorsports entertainment complexes eligible for the 5-year 100% immediate capital expensing (bonus depreciation expansion) included in TCJA?
Not completely. Because Section 168(i)15 has not been renewed or made permanent, roughly one-third of the assets within a motorsports entertainment complex would decelerate to a 39-year class life and would likely no longer fall under the threshold for bonus depreciation.