

IRC SECTION 168(K) TAX STRATEGY GUIDE

# Qualifying Arcade Games for Bonus Depreciation

A comprehensive guide to leveraging arcade games as qualifying business assets under the Internal Revenue Code, including the permanent 100% bonus depreciation restored by the One Big Beautiful Bill Act.

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**100%**

BONUS DEPRECIATION

**7-Year**

MACRS RECOVERY

**Class 79.0**

ASSET CLASSIFICATION

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## SECTION 168(K)

# 1. Understanding Bonus Depreciation

The Internal Revenue Code offers several incentives to encourage business investment, one of the most significant being the additional first-year depreciation deduction, commonly known as **bonus depreciation**, codified under Section 168(k). This provision allows businesses to immediately deduct a substantial percentage of the purchase price of qualifying assets rather than capitalizing and depreciating the cost over many years.

Recent legislation, particularly the *One Big Beautiful Bill Act* (OBBBA) of 2025, has permanently restored 100% bonus depreciation, making it a powerful tool for tax planning.

To be eligible for bonus depreciation, an asset must be "qualified property." The primary requirements are:

### Property Type

Must be tangible personal property depreciated under MACRS with a recovery period of 20 years or less.

### Acquisition Date

For 100% bonus, must be acquired after January 19, 2025 (OBBBA introduction date).

### Placed in Service

Must be placed in service within a specified timeframe — ready and available for intended use.

### Original or Used Property

Original use begins with taxpayer, or if used, not previously used by taxpayer and not from a related party.

## Bonus Depreciation Phase-Down & Restoration

PLACED IN SERVICE PERIOD	BONUS %
After Sept 27, 2017 – Before Jan 1, 2023	100%
After Dec 31, 2022 – Before Jan 1, 2024	80%
After Dec 31, 2023 – Before Jan 1, 2025	60%
After Dec 31, 2024 – Before Jan 1, 2026	40%
<b>Acquired &amp; Placed in Service After Jan 19, 2025</b>	<b>100% (Permanent)</b>

Source: IRC § 168(k)(6), One Big Beautiful Bill Act of 2025

## ASSET CLASSIFICATION

## 2. Arcade Games as Qualified MACRS Property

An arcade game is considered **tangible personal property**, a primary category of assets eligible for bonus depreciation. Under the MACRS framework, assets are assigned to specific classes which determine their depreciable life.

According to IRS guidance, coin-operated amusement devices — including video games and pinball machines — fall under **Asset Class 79.0, titled "Recreation"**. This asset class has a class life of 10 years and a MACRS recovery period of 7 years under the General Depreciation System (GDS).

Since the 7-year recovery period is well below the 20-year maximum for qualified property, an arcade game satisfies this crucial requirement for bonus depreciation eligibility.

PROPERTY	VALUE
Asset Class	79.0
Description	Recreation
Class Life	10 Years
MACRS Recovery (GDS)	7 Years
ADS Recovery	10 Years
Depreciation Method	200% DB

Per Rev. Proc. 87-56

## IRC § 162

## 3. The "Used in a Trade or Business" Requirement

Depreciation deductions are only permitted for property that is **used in a taxpayer's trade or business** or held for the production of income. For an activity to be considered a trade or business, the primary motive must be for income or profit.

An expense is considered "ordinary and necessary" under IRC § 162 if it is common and accepted in the trade or business and is helpful and appropriate. Several valid business uses for an arcade game exist:

### 1. Enhancing Customer Experience

In service-based businesses like medical offices, law firms, or repair shops, an arcade game in a waiting area can entertain clients, reduce perceived wait times, and improve overall customer satisfaction.

**Examples:** Dental offices, auto repair shops, veterinary clinics, law firm lobbies

## 2. Boosting Employee Morale

Placing an arcade game in an employee break room can serve as a tool to improve morale, reduce stress, and foster a positive work environment.

**Examples:** Tech company break rooms, corporate offices, warehouse facilities, call centers

## 3. Direct Revenue Generation

The most straightforward business use is in establishments where the game itself generates revenue through coin or token operation.

**Examples:** Bars & restaurants, bowling alleys, dedicated arcades, entertainment venues

## 4. Navigating the "Listed Property" Rules

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Arcade games fall under "**listed property**" as defined in IRC § 280F, which includes property generally used for entertainment, recreation, or amusement. This classification imposes two critical requirements:

### Heightened Substantiation

Maintain rigorous records per IRC § 274(d):

- Detailed logs of the amount of use
- The specific business purpose for each use
- The date and duration of each use
- Documentation of business vs. personal use hours

### Greater Than 50% Business Use

The qualified business use must exceed 50% of total use during the taxable year to claim MACRS and bonus depreciation.

If business use is 50% or less, only ADS (straight-line) depreciation is allowed.

### Practical Example

For an arcade game in a dental office waiting room, the business use would be the hours it is available to clients during business hours. Personal use by the owner or their family after hours would need to be tracked. For a game in an employee break room, its availability to employees during work hours is considered its business use.

## FINANCIAL PROJECTIONS

## 5. Arcade Game Revenue Share Model

The following model illustrates the potential income from a single commercial-grade arcade game placed in a revenue-generating location, based on two income scenarios.

### Conservative Scenario: \$5,000/Month Gross Income

ITEM	MONTHLY	ANNUAL
Gross Income	\$5,000.00	\$60,000.00
Location Revenue Share (30%)	(\$1,500.00)	(\$18,000.00)
Maintenance & Repairs	(\$200.00)	(\$2,400.00)
Insurance	(\$83.33)	(\$1,000.00)
Supplies / Parts	(\$150.00)	(\$1,800.00)
Collection / Transport	(\$100.00)	(\$1,200.00)
Licensing / Permits	(\$41.67)	(\$500.00)
Miscellaneous	(\$77.77)	(\$933.24)
<b>Net Operating Income</b>	<b>\$2,847.23</b>	<b>\$34,166.76</b>

### Optimistic Scenario: \$10,000/Month Gross Income

ITEM	MONTHLY	ANNUAL
Gross Income	\$10,000.00	\$120,000.00
Location Revenue Share (30%)	(\$3,000.00)	(\$36,000.00)
Maintenance & Repairs	(\$200.00)	(\$2,400.00)
Insurance	(\$83.33)	(\$1,000.00)
Supplies / Parts	(\$150.00)	(\$1,800.00)
Collection / Transport	(\$100.00)	(\$1,200.00)
Licensing / Permits	(\$41.67)	(\$500.00)
Miscellaneous	(\$77.77)	(\$933.24)
<b>Net Operating Income</b>	<b>\$6,347.23</b>	<b>\$76,166.76</b>

## Scaling to 10 Games

With 10 arcade games, the projected annual NOI ranges from **\$341,668** (conservative) to **\$761,668** (optimistic), creating a substantial income stream alongside the significant first-year tax benefits.

## TAX SAVINGS SCENARIO

## 6. \$1.5M Income — 10 Games at \$150,000 Each

### The Setup

An individual taxpayer filing **Married Filing Jointly** has \$1,500,000 in taxable income. They purchase **10 commercial-grade arcade games at \$150,000 each** (\$1,500,000 total) with a 10% down payment (\$150,000) and 90% dealer financing at 0% interest over 15 years.

Under the OBBBA, the full \$1,500,000 purchase price qualifies for 100% bonus depreciation in Year 1 — regardless of how much was financed.

ITEM	WITHOUT GAMES	WITH GAMES
Taxable Income	\$1,500,000	\$1,500,000
Bonus Depreciation Deduction	\$0	(\$1,500,000)
Adjusted Taxable Income	\$1,500,000	\$0
Federal Tax (2025 MFJ Brackets)	\$479,062	\$0
Down Payment (Cash Outlay)	—	\$150,000
Dealer Financing (0%, 15 yr)	—	\$1,350,000

**Federal Tax Savings: \$479,062 | ROI on Down Payment: 319%**

### State Tax Savings (Additional)

STATE	RATE	ADDITIONAL SAVINGS	COMBINED TOTAL
California	13.3%	\$199,500	\$678,562
New York	10.9%	\$163,500	\$642,562
Sample State (5%)	5.0%	\$75,000	\$554,062
Nevada / Texas / Florida	0%	\$0	\$479,062

## TAX SAVINGS SCENARIO

## 7. \$1M IRA-to-Roth Conversion

### The Setup

An individual taxpayer filing **Married Filing Jointly** converts \$1,000,000 from a traditional IRA to a Roth IRA. This conversion is treated as ordinary income, creating a significant tax liability. To offset this, they purchase **10 commercial-grade arcade games at \$100,000 each** (\$1,000,000 total) with a 10% down payment (\$100,000) and 90% dealer financing at 0% over 15 years.

ITEM	WITHOUT GAMES	WITH GAMES
Roth Conversion Income	\$1,000,000	\$1,000,000
Bonus Depreciation Deduction	\$0	(\$1,000,000)
Adjusted Taxable Income	\$1,000,000	\$0
Federal Tax (2025 MFJ Brackets)	\$294,062	\$0
Down Payment (Cash Outlay)	—	\$100,000
Dealer Financing (0%, 15 yr)	—	\$900,000

**Federal Tax Savings: \$294,062 | ROI on Down Payment: 294%**

### Why This Strategy Is Powerful

The Roth conversion moves \$1M from a tax-deferred account to a **tax-free** account. The bonus depreciation deduction eliminates the conversion tax. The result: \$1M growing tax-free in a Roth IRA, 10 income-producing arcade games, and \$0 in federal tax — all for a \$100,000 cash outlay.

### State Tax Savings (Additional)

STATE	RATE	ADDITIONAL SAVINGS	COMBINED TOTAL
California	13.3%	\$133,000	\$427,062
New York	10.9%	\$109,000	\$403,062
Sample State (5%)	5.0%	\$50,000	\$344,062
Nevada / Texas / Florida	0%	\$0	\$294,062

## COMPLIANCE

## 8. Record-Keeping Checklist — IRC § 274(d)

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Listed property requires heightened substantiation. Use this checklist to ensure you maintain adequate records for each arcade game:

### Acquisition Records

- Date placed in service** — The exact date the arcade game was set up and available for use
- Purchase price and proof of payment** — Invoice, receipt, or settlement statement showing the full cost
- Seller information and acquisition method** — Dealer name, whether new or used, financing terms

### Business Purpose Documentation

- Written statement of business purpose** — Document why the game was acquired (customer experience, employee morale, revenue)
- Physical location of the arcade game** — Where it is placed (waiting room, break room, entertainment floor)

### Usage Tracking (Critical for Listed Property)

- Contemporaneous log of business use hours** — Daily or weekly log showing hours available for business use
- Log of personal use hours (if any)** — Track any non-business use by owner, family, or employees for personal purposes
- Calculated business use percentage** — Must exceed 50% to qualify for MACRS and bonus depreciation
- Revenue records (if coin/token operated)** — Collection logs, meter readings, or POS reports

### Maintenance & Compliance

- Maintenance and repair records** — Service logs, parts receipts, technician invoices
- IRS Form 4562** — Depreciation and Amortization form filed with your tax return
- Asset classification documentation** — Note that the game is classified under Asset Class 79.0 (Recreation)

### Annual Review

- Annual business use percentage review** — Recalculate each year; if it drops to 50% or below, recapture rules apply
- Awareness of depreciation recapture rules** — Under IRC § 280F(b)(2), if business use drops to 50% or below, excess depreciation must be recaptured as ordinary income

## REFERENCE

## 9. Tax Terms Glossary

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### **Bonus Depreciation**

An accelerated depreciation method under IRC § 168(k) that allows businesses to deduct a large percentage (up to 100%) of an asset's cost in the first year it is placed in service, rather than spreading the deduction over the asset's useful life.

### **MACRS (Modified Accelerated Cost Recovery System)**

The primary depreciation system used in the United States for tax purposes. It assigns assets to specific property classes with predetermined recovery periods and depreciation methods.

### **Listed Property**

A category of depreciable assets defined under IRC § 280F that are susceptible to personal use, including entertainment and recreation property. Listed property is subject to heightened substantiation requirements and the >50% business use test.

### **Placed in Service**

The date on which a depreciable asset is first ready and available for its intended use in a trade or business. This date determines the tax year in which depreciation begins and which bonus depreciation percentage applies.

### **Recovery Period**

The number of years over which the cost of a depreciable asset is recovered through annual depreciation deductions under MACRS. Arcade games fall under the 7-year recovery period (Asset Class 79.0).

### **Depreciation Recapture**

The process by which previously claimed depreciation deductions are "recaptured" as ordinary income when the asset is sold or when business use drops below required thresholds. For listed property, recapture applies if business use falls to 50% or below.

### **Section 179 Expensing**

An alternative to bonus depreciation under IRC § 179 that allows businesses to deduct the full purchase price of qualifying equipment in the year of purchase, subject to annual dollar limits and taxable income limitations.

### **Tangible Personal Property**

Physical, movable assets used in a trade or business that are not permanently attached to real estate. Arcade games, furniture, equipment, and vehicles are examples. This category is eligible for both bonus depreciation and Section 179 expensing.

### **Alternative Depreciation System (ADS)**

A slower, straight-line depreciation method required when listed property business use is 50% or less. ADS uses longer recovery periods than GDS and does not allow bonus depreciation.

### **Qualified Business Use**

Use of property in a taxpayer's trade or business. For listed property, qualified business use must exceed 50% of total use to claim MACRS depreciation and bonus depreciation. Investment use counts toward total use but not toward the >50% threshold.

### **One Big Beautiful Bill Act (OBBBA)**

Legislation enacted in 2025 that permanently restored 100% bonus depreciation for qualified property acquired and placed in service after January 19, 2025, reversing the phase-down schedule from the Tax Cuts and Jobs Act.

### **Net Operating Loss (NOL)**

When allowable tax deductions exceed taxable income in a given year. Bonus depreciation can create or increase an NOL, which may be carried forward to offset future taxable income (up to 80% of taxable income in carryforward years).

**IRA-to-Roth Conversion**

The transfer of funds from a traditional IRA (tax-deferred) to a Roth IRA (tax-free growth). The converted amount is treated as ordinary income in the year of conversion, creating a tax liability that can potentially be offset by bonus depreciation deductions.

**Revenue Share Model**

A business arrangement where the arcade game owner places machines in a host location (bar, restaurant, etc.) and splits the revenue with the location owner, typically 70/30 in favor of the game owner.

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**Arcade Tax Guide** — IRC Section 168(k) Bonus Depreciation

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