

Favorable expensing and depreciation rules for qualified leasehold improvements

Whether you are a landlord or a tenant, some of the leasehold improvements that you make may qualify for favorable expensing and depreciation rules that don't apply to building costs generally.

Instead of claiming some or all of the depreciation allowed for the "qualified leasehold improvement property" (described below), you might be able to elect to "expense" (i.e., deduct in the placed-in-service year) up to \$510,000 for tax years beginning in 2017 (\$520,000 for tax years beginning in 2018) of the cost of "qualified leasehold improvement property" Note, however, that you are ineligible for all or part of the expensing benefit if in the year that the leasehold improvements are placed into service you placed into service other property-machinery and equipment, "off-the-shelf" computer software, and certain real property-whose cost, combined with the cost of the leasehold improvements, is greater than \$2,030,000 for tax years beginning in 2017 (\$2,070,000 for tax years beginning in 2018).

More favorably, note that the improvements (assuming they are new property) are also generally eligible for 50% bonus depreciation (40% for improvements placed in service in 2018). That means that, generally, 50% of the cost of the improvements for which the expensing election can't be (or isn't) made can be deducted in the placed-in-service year. Depreciation deductions for the remaining cost of the improvements are taken in the placed-in-service year and the rest of the depreciation period. For qualified leasehold improvements the depreciation period is 15 years.

These special rules are a dramatic departure from the general rule that deductions for the cost of non-residential buildings, or improvements to the buildings, are allowed over a 39-year period.

Many, but not all, improvements made under a lease meet the requirements for being "qualified leasehold improvement property." These requirements include, but aren't limited to, the requirements that the improvements not enlarge the building, not be attributable to internal structural framework and not be placed in service three years or sooner after the building was first placed in service. I'm available to help you determine whether any improvements that you have in mind meet the requirements. Also, I can help you identify improvements that, although attached to the building, are, for depreciation purposes, considered to be machinery or equipment and, thus, if you have used up your expensing allotment, can be depreciated over short

depreciation periods (generally 5 or 7 years).

Please contact me at your convenience if you are interested in working with me to take advantage of the tax breaks for qualified leasehold improvement property *or* to learn about *other* building costs that get favorable tax treatment. I look forward to talking to you about these or any other tax matters.