



LEASEHOLD IMPROVEMENT DEPRECIATION

POSITION:

SMACNA supports (**S.136/H.R 2014**) amending the internal revenue code to make permanent a shortened depreciable recovery period for all improvements to leasehold properties, including HVAC equipment, of approximately 15 years.

ISSUE:

The 108th Congress amended the Internal Revenue Code to reduce temporarily the 39-year recovery period for the depreciation of interior improvements on leased properties to a 15-year recovery period for 2004 and 2005. This change was limited to “any improvement to the interior portion of a building which is non-residential real property”. This change should be expanded to cover all leasehold improvements for all types of buildings. This would reflect actual property values as determined by current tenant needs, business practices and building use patterns. This would encourage investment in renovations to suit tenant needs, increase the use of high-efficiency energized systems and lighting, help local economies, lower building operating costs and improve indoor air quality. The leasehold depreciation improvements were extended last year.

FACTS:

- In commercial structures leasehold improvements typically last as long as the lease average of five to ten years. Therefore, a 15-year depreciation period proposed is far more realistic than the current IRS depreciable life of 39-years for the leasehold improvements.
- Leasehold improvements are alterations made to office and general commercial space, as part of a lease agreement. Improvements made to a building’s interior or exterior can include, but are not limited to roofing, electrical wiring, walls and partitions, plumbing, heating and cooling systems.
- A 15-year depreciation period would reduce current disparity between tenant depreciation expenses, and tenant demands and building use patterns.
- Reducing the leasehold cost recovery period would further provide incentives to invest in high-efficiency energy systems for facility lighting, heating and air conditioning. Such improvements are known to lower building operation cost and improve indoor air quality

STATUS:

S.1361, sponsored by Sen. Kent Conrad (D-ND), would set the leasehold depreciation period permanently at 15 years. **H.R. 2014**, sponsored by Rep. Joseph Crowley (D-NY), would reduce permanently the depreciation period for all HVAC system equipment replacement in non-residential buildings to 15 years. Both bills are pending committee approval.

Updated December 2007



CAPITOL HILL OFFICE: 305 4TH STREET NE • WASHINGTON DC 20002
PHONE: 202 547 8202 • FAX: 202 547 8810
HEADQUARTERS: 4201 LAFAYETTE CENTER DRIVE • CHANTILLY VA 20151-1209
MAIL ADDRESS: P.O. BOX 221230 • CHANTILLY VA 20153-1230
PHONE: 703 803 2980 • FAX: 703 803 3732
WEB: www.smacna.org