

FIXING QUALIFIED IMPROVEMENT PROPERTY

Key Takeaways

- ▶ Qualified Improvement Property (QIP), formerly leasehold depreciation, has reverted to 39-years from the 15-year period intended by Congress, through a drafting error in TCJA.
- ▶ The Joint Committee on Taxation (JCT) scored TCJA to include 15-year depreciation for QIP. This fix is already paid for.
- ▶ According to the conference committee report, QIP was intended to be depreciated at 15 years, qualifying for bonus depreciation
- ▶ The need for a technical correction is openly acknowledged by both parties and both chambers.

The Issue: The Tax Cuts and Jobs Act (TCJA) of 2017 inadvertently raised the depreciation period of leasehold improvements from 15 years to 39 due to drafting error. The definitions of leasehold, restaurant and retail improvement property were intended to be combined into one property class known as “qualified improvement property” (QIP). Unfortunately, instead of lowering the depreciation rate for these property types, the drafting error increased the depreciation period of leasehold improvements. This resulted in two problems. First, the depreciation for interior improvements has reverted to 39 years, up from 15 years. Second, this error prevents QIP from being fully expensed under the tax bill’s temporary 100% bonus depreciation (until 2022). ***The Restoring Investment in Improvements Act*** (S. 803/H.R. 1869) sponsored by Senators Patrick Toomey (R-PA) and Doug Jones (D-AL) and Representatives Jimmy Panetta (D-CA) and Jackie Walorski (R-IN) would correct this error.

BOMA’s Position: BOMA strongly urges Congress to correct the property life of QIP to 15 years and include QIP as eligible property for 100% bonus depreciation. As building owners negotiate leases with tenants, QIP is considered while determining tenant improvement dollars. Those dollars create jobs in building trades such as painters, carpenters, plumbers and electricians. With less money for tenant improvements, local jobs will suffer.

Specific Ask: Co-sponsor and support ***The Restoring Investment in Improvements Act*** (S. 803/H.R. 1869) to correct the Qualified Improvement Property drafting error and return QIP to a 15-year depreciation period retroactively and grant it temporary 100% bonus depreciation until 2022 as intended.

For more information please contact:
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