



Depreciation of Leasehold Improvements

The Issue:

One of the most important obligations of shopping center owners is providing modern, efficient and environmentally sound retail space for their tenants and the public. Owners must periodically refurbish and replace (usually every 5 to 10 years) many components of their buildings, including internal walls, partitions, lighting, plumbing, flooring and communication outlets, in order to meet the specific needs of their tenants and to comply with government regulations. As building owners and managers consider how to incorporate energy-efficient and green building techniques, this tax incentive will be especially important.

After years of advocating for modernization of the depreciation schedules for leasehold improvements, Congress granted a temporary 15-year straight-line depreciation period for leasehold improvements. The provision, which covered improvements placed in service after the bill was enacted, expired on December 31, 2007. An extension of this provision is under consideration by Congress.

In the 110th Congress, Senators Kent Conrad (D-ND) and Jon Kyl (R-AZ) have introduced S. 1361 and Representatives Joe Crowley (D-NY) and Jerry Weller (R-IL) have introduced H.R.2014, legislation to make permanent the 15-year depreciation period for leasehold improvements. The Joint Tax Committee estimates the cost for a permanent extension to be \$8 billion over 10 years.

Until the opportunity arises to permanently address the depreciation schedule for leasehold improvements, ICSC continues to work to make sure that a short-term extension of the 15-year depreciation period of leasehold improvements is considered with any appropriate legislative vehicle. We expect that a one year extension of the current 15 year accelerated depreciation of leasehold improvements along with several other tax extender provisions will be considered by Congress during the first half of 2008.

Our Position:

ICSC continues to support legislation to make the 15-year depreciation period for leasehold improvements permanent and believes a depreciation schedule that more closely reflects the actual life of market practices will encourage shopping center owners to incorporate green building techniques and better maintain and invest in their properties.

Opposing Argument:

Some opponents have said that leasehold improvements should not receive preferential tax treatment over other types of building assets, and any change should be part of an overall, comprehensive depreciation-reform package.

ICSC's Response:

ICSC supports the concept of comprehensive depreciation reform; however, we expect that the price tag for such reform would be large and politically unviable. Also, for some building assets 39 years may be an appropriate period for depreciation, but for leasehold improvements this is an extremely long period of time when compared to the actual economic life (5 to 10 years) of leasehold improvements.

For more information, contact Jennifer Platt at jplatt@icsc.org or (202) 626-1404.