Qualified Improvement Property

Fixtures Fix – H.R. 1869/S.803

Overview

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 partitions, lighting, plumbing, flooring and communication outlets, in order to meet the specific needs of their new and existing tenants and to comply with government regulations.

Every year businesses spend billions of dollars on these property improvements, providing work for local contractors and skilled tradespersons, like electricians, plumbers, painters and carpenters. In addition, these improvements often have a positive environmental impact, as building operators incorporate more energy-efficient equipment and green building techniques.

In 2015, Congress provided a permanent 15-year straight-line depreciation period for these property improvements, in the bipartisan Protecting Americans from Tax Hikes (PATH) Act.

Problem

In tax reform, several separate categories of property improvements – leasehold, restaurant and retail – were combined under a new definition called “qualified improvement property” (QIP). QIPs were intended to be depreciated over 15 years, making them eligible to qualify for bonus depreciation (page138 of JCS-1-18). Due to a drafting mistake, however, these improvements must be depreciated over 39 years, much longer than their economic life.

As a result of this tax uncertainty, businesses are delaying undertaking these vital capital expenditures, which makes it harder to attract new tenants and negatively impacts jobs and employers in our local communities.

Retail invested $6.5 billion in tenant improvements in 2018. Tenant improvements supported 125,000 jobs in 2018.

Our position

ICSC supports prompt passage of the bipartisan Restoring Investment in Improvements Act, H.R. 1869/S. 803, which corrects the error by Congress and once again shortens depreciation schedules so they are more in line with real world business practices.

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