

## **Bush Signs Bill With NAR-Backed Leasehold Provision**

(October 25, 2004) -- Legislation that temporarily reduces the tax recovery period for leasehold tenant improvements to 15 years from 39 years--a provision strongly backed by the NATIONAL ASSOCIATION OF REALTORS®--has been signed by President Bush.

The leasehold provision is included in the American Jobs Creation Act of 2004 (H.R. 4520), which was approved by Congress earlier this month and introduced earlier this year by House Ways and Means Chairman Bill Thomas (R-Calif.).

NAR strongly supports a significantly reduced depreciation period for leasehold improvements, which are defined as permanent enhancements made to commercial buildings on behalf of tenants.

"REALTORS® congratulate Congress and the president for approving legislation that will substantially reduce the depreciation period for tenant improvements," says NAR President Walt McDonald, broker-owner of Walt McDonald Real Estate in Riverside, Calif. "Improved tax treatment for leasehold improvements will help spur capital investment in commercial real estate and create jobs."

Approximately \$15 billion of the \$250 billion invested annually in commercial real estate goes into leasehold improvements such as carpeting and fixture or wiring upgrades that typically need to be replaced when the lease turns over. The impact of this figure doubles as it filters through the economy in the form of increased productivity and jobs for construction and remodeling companies, building material suppliers and related industries.

While the leasehold provision is temporary, it is of great importance because it establishes a precedent that 15 years is the appropriate depreciable life for these types of real estate assets. The provision will be effective for properties placed in service between today's date and Dec. 31, 2005. The legislation also contains important Real Estate Investment Trust modernization provisions.

NAR Realtor Magazine

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*Leasehold Improvements:* Qualified leasehold improvements made between October 22, 2004 (the date of enactment) and January 1, 2006 may be depreciated using a 15-year cost recovery period and a straight-line method. Previously-issued IRS regulations define leasehold improvements very generally as property that is not permanently affixed to the structure. The provision permits either the landlord or the tenant (but not both) to utilize the provision. The new rule applies only to nonresidential real estate. Note that Congress did *not* extend the 30% and 50% bonus depreciation rules.

**Effective dates: Oct. 22, 2004 - Dec. 31, 2005**