

**Leasehold Improvements - Depreciation Quick Reference (last updated 1-12-2012)**

	Applicable PIS Dates (inclusive)	GDS Recovery Period	Bonus Dep Eligible	3 Year Rule	Unrelated Parties Rule	Subject to Certain Exclusions	179 Expense Eligible	Important Notes	Code Section
Qualified <b>Leasehold</b> Improvements (QLI): 2001 - 2004 Partial	9/11/01 - 10/22/04	39 Year / SL	Y	Y	Y	Y	N/A	39 year QLI qualifies for Bonus! See 168(k)(2)(A)(i)(IV) Landlord or lessee can make the interior improvement.	168 (k)(3)
Qualified Leasehold Improvements (QLI): 2004 Partial - 2011	10/23/04 - 12/31/11	15 Year / SL	Y*	Y	Y	Y	2010 - 2011 Up to \$250k	Landlord or lessee can make the interior improvement.	168 (k)(3)
Qualified <b>Leasehold</b> Improvements (QLI): 2012	1/1/12 - 12/31/12	39 Year / SL	Y	Y	Y	Y	N/A	39 year QLI qualifies for Bonus! See 168(k)(2)(A)(i)(IV) Landlord or lessee can make the interior improvement.	168 (k)(3)
Qualified <b>Restaurant</b> Property: 2004-2007	10/23/04 - 12/31/07	15 Year / SL	N**	Y	N	N	N/A	Applicable to all improvements attached to building.	168 (e)(7)
Qualified <b>Restaurant</b> Property: 2008	1/1/08 - 12/31/08	15 Year / SL	Y	Y	N	N	N/A	Applicable to all improvements attached to building.	168 (e)(7)
Qualified <b>Restaurant</b> Property: 2009 - 2011	1/1/09 - 12/31/11	15 Year / SL	N***	N	N	N	2010 - 2011 Up to \$250k	Encompasses the entire building structure as well as interior costs. Can be an acquired building.****	168(e)(7)
Qualified <b>Retail</b> Improvement Property	1/1/09 - 12/31/11	15 Year / SL	N***	Y	N	Y	2010 - 2011 Up to \$250k	Building can be owner occupied.	168(e)(8)

\* NOT eligible for bonus if placed in service 1/1/2005 - 12/31/2007

\*\* Qualified Restaurant Property is eligible for bonus depreciation if placed in service 10/23/2004 - 12/31/2004.

\*\*\* Per R.P. 2011-26 Improvements that also meet the criteria for Qualified Leasehold Improvements are eligible for bonus depreciation.

\*\*\*\* Although the tax code definition of QRP in 2009 seems to encompass used buildings, it is unclear if this was the intent of Congress since previously these incentive were strictly for new construction.

Bonus Depreciation Rates (inclusive dates)	
9/11/2001 - 5/5/2003 ^	30%
5/6/2003 - 12/31/2004 ^	50%
1/1/2008 - 9/8/2010 ^	50%
9/9/2010 - 12/31/2011 ^	100%
1/1/2012 - 12/31/2012 ^	50%

^ Long Production Period (QLI improvements over \$1M and construction period exceeds 1 Year) - can be placed in service one year after bonus normally expires. QLI (that is also LPP) started before 1/1/2012 can be **entirely** eligible for 100% bonus if completed during 2012. 50% bonus is applicable if LPP is started after 12/31/2011. Only pre-1/1/2013 basis is bonus eligible on any LPP.

If Construction Started before Sept 8, 2010 - Special Election Necessary to Claim 100% Bonus
The new election introduced in <b>Rec. Proc. 2011-26 Section 3.02(2)(b)</b> allows taxpayers to claim 100% bonus on certain assets where they would otherwise be limited to 50% bonus (if more than 10% of the construction cost was incurred before 9/8/2010 you would be limited to 50% bonus without this election).
The election can be made for any Qualified Leasehold Improvement construction costs or building component acquired and placed in service after September 8, 2010, where construction started before this date. A more detailed analysis may be necessary by a cost segregation engineer to determine what construction components were actually completed after September 8, 2010.
This election can also be made on any asset where construction started before September 8, 2010. Example - A \$10 million newly constructed freestanding building was started in June 2010 and placed in service in November of 2011. A KBKG cost segregation specialist will identify which 1245 building components (with a tax life under 20 years), will qualify for 100% bonus vs. 50% bonus.

See Next Page For More Detail On Depreciation Rules

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- » Sales & Use Tax
- » Expense Recovery

**Definitions:**

**3 Year Rule:** The improvements must have been placed in service by any taxpayer more than three years after the date the building was first placed into service.

**Leased Between Unrelated Party Qualification:** Improvements must be made subject to a lease between unrelated parties. Can be made by lessees, sub-lessees or lessors to an interior portion of a nonresidential building.

**Certain Exclusions:** The following items are excluded from the definition (i) the enlargement of the building, (ii) any elevator or escalator, (iii) any structural component benefiting a common area, and (iv) the internal structural framework of the building.

**Qualified leasehold improvement property:** any improvement to an interior portion of a building which is nonresidential real property if— (i) such improvement is made under or pursuant to a lease (I) by the lessee (or any sublessee) of such portion, or (II) by the lessor of such portion, (ii) such portion is to be occupied exclusively by the lessee (or any sublessee) of such portion, and (iii) such improvement is placed in service more than 3 years after the date the building was first placed in service. (B) Certain improvements not included. Such term shall not include any improvement for which the expenditure is attributable to— (i) the enlargement of the building, (ii) any elevator or escalator, (iii) any structural component benefiting a common area, and (iv) the internal structural framework of the building.

**Qualified restaurant property 2004-2007:** an improvement to a building if— (A) such improvement is placed in service more than 3 years after the date such building was first placed in service, and (B) more than 50 percent of the building's square footage is devoted to preparation of, and seating for on-premises consumption of, prepared meals.

**Qualified restaurant property 2008:** an improvement to a building, if more than 50 percent of the building's square footage is devoted to preparation of, and seating for on-premises consumption of, prepared meals.

**Qualified restaurant property 2009-2011:** any section 1250 property which is—(i) a building, if such building is placed in service after December 31, 2008, and before January 1, 2012.

**Qualified retail improvement property:** any improvement to an interior portion of a building which is nonresidential real property if— (i) such portion is open to the general public and is used in the retail trade or business of selling tangible personal property to the general public, and (ii) such improvement is placed in service more than 3 years after the date the building was first placed in service. QRIP shall not include any improvement for which the expenditure is attributable to— (i) the enlargement of the building, (ii) any elevator or escalator, (iii) any structural component benefiting a common area, or (iv) the internal structural framework of the building.

**Long Production Period Property: 168(k)(2)(B)** - Must have a recovery period of at least 10 years, is subject to section 263A, has an estimated production period exceeding 2 years, or an estimated production period exceeding 1 year and a cost exceeding \$1,000,000.