



BUILDING AND LEASEHOLD IMPROVEMENTS DEPRECIATION UPDATE

There have been many changes to the depreciation rules related to Building and Leasehold Improvements over the past few years. Due to the many changes, the definitions, requirements, and classifications related to these improvements have become muddled over the years. For your convenience, we offer an explanation of the classifications and related depreciation rules applicable to your tax returns below:

QUALIFIED LEASEHOLD IMPROVEMENT PROPERTY (QLI):

This classification includes any improvement made to an interior of a building that is nonresidential real property, made under or pursuant to a lease that is not between related parties, and made in a building that is more than 3 years old. The improvement must not enlarge the building, be an elevator or escalator, be a structural component benefitting a common area, or be part of the internal structural framework of the building.

Improvements classified in this category have a straight-line depreciable life of 15 years, are eligible for Additional First Year Bonus Depreciation, and are eligible for Section 179 Expensing up to the full cap (\$500,000 in 2016).

QUALIFIED RETAIL IMPROVEMENT PROPERTY (QRIP):

This classification includes any improvement made to the interior of a building that is nonresidential real property, the space improved is open to the general public and is used in the retail trade or business of selling goods to the public, and made in a building that is more than 3 years old. The improvement must not enlarge the building, be an elevator or escalator, be a structural component benefitting a common area, or be part of the internal structural framework of the building.

Improvements classified in this category have a straight-line depreciable life of 15 years, are eligible for Additional First Year Bonus Depreciation, and are eligible for Section 179 Expensing up to the full cap (\$500,000 in 2016).

THE BOTTOM LINE

Due to changes to the depreciation rules related to Building and Leasehold Improvements, the definitions, requirements, and classifications have become muddled over the years.

QUALIFIED RESTAURANT PROPERTY (QRP):

This classification includes any building or improvement to a building if more than 50% of the building's square footage is devoted to the preparation of and seating for on-premises consumption of prepared meals in a building placed in purchased or placed in service after December 31, 2008.

Improvements classified in this category have a straight-line depreciable life of 15 years, and are eligible for Section 179 Expensing up to the full cap (\$500,000 in 2016). Additionally, these improvements are eligible for Additional First Year Bonus Depreciation if they also meet the qualifications for QLI, above, or QPI, below.

QUALIFIED IMPROVEMENT PROPERTY (QIP):

This classification includes any improvement made to the interior of a building that is nonresidential real property and placed in service after the date that the building is placed in service. The improvement must not enlarge the building, be an elevator or escalator, or be part of the internal structural framework of the building.

Improvements classified in this category have a straight-line depreciable life of 39 years, and are eligible for Additional First Year Bonus Depreciation. Additionally, should the improvement also meet the qualifications of QLI, QRIP or QRP, a straight line depreciable life of 15 years should be used and the improvement would also be eligible for Section 179 Expensing up to the full cap (\$500,000 in 2016).

HORNE CAN HELP

As we work through your tax filings, we will apply the current rules and regulations to achieve the most beneficial tax result available. In the meantime, if you have any questions, please reach out to you HORNE advisor and ask about our fixed asset services. We are here to help.

CONNECT WITH US.

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Mitch is a senior manager in franchise services with HORNE. He serves as the head of tax services and assists franchisor and franchisee businesses navigate their tax and general business administration needs.

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