

In the Marketplace

Look into bonus depreciation

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“On February 13, President Bush signed into law the Economic Stimulus Act. While most of the attention is focused on the dispersal of rebate checks to taxpayers, there are also a couple of significant tax-saving provisions geared toward landlords, developers, business owners, and tenants.

Our overview will be on the provision called bonus depreciation.

Bonus depreciation was first introduced following September 11, 2001, but the policy expired at the end of 2004. It was reintroduced with the Economic Stimulus Act of 2008 to both encourage new construction and the purchase of depreciable assets.

For landlords, developers, business owners, and tenants the provision allows for a 50 percent write-off of qualified leasehold improvements in 2008. This is a drastic change from the 2.5 percent per year allowed since 2006.

The idea is to encourage improvement to existing non-residential properties that are more than three years old. For example, renovation of a Class B office building into a more-sought-after Class A building to meet the requirements of a prospective tenant.

Bonus depreciation also encourages better tenant improvement packages, and will allow landlords a chance to freshen up existing buildings to entice or retain tenants. For business owners in the retail or restaurant industry looking to relocate, the tax incentive could help offset significant build-out costs required to renovate space.

To qualify for bonus depreciation, a property may not be expanded or structurally altered, and construction or elevators is not permitted. All work must be contracted and completed between January 1 and December 31, 2008.

To take advantage of the incentives, and to better understand the qualifiers, we strongly recommend that you talk with your commercial real estate broker and tax professional.

Under the right circumstances, landlords, business owners, developers, and tenants have an opportunity to benefit from the bonus depreciation provision.