

KEY POINTS

- ▶ Congress sought to incentivize increased capital investment in buildings by establishing shorter depreciation periods for leasehold improvements (Qualified Improvement Property). A drafting error in the 2017 tax reform bill resulted in much longer depreciation periods than intended.
- ▶ **The Restoring Investment in Improvements Act (S. 803, H.R. 1869)** provides a needed technical correction to the tax law, restoring the original congressional intent to increase investment and promote job growth.
- ▶ Economic incentives offered by state and local public entities are critical for the success of redevelopment projects in underserved communities. Previously, deferral of tax for these “nonshareholder contributions” were enshrined in the tax code.
- ▶ A change in tax law now requires upfront taxation of such incentives, reducing their value and increasing development costs. Bipartisan legislation in the Senate (**S. 2942**) would reverse this change and enable state and local governments to maximize incentive dollars.

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OUR POSITION

Congress should pass legislation that restores the original intent of the Tax Cuts and Jobs Act, and allows businesses to recover investments in Qualified Improvement Property over a period that reflects the true economic life of the asset. Restoring the preferential tax treatment of incentives offered by public entities ensures that local investment dollars are fully leveraged, and that these funds are appropriately directed towards much-needed development projects.

- Qualified Improvement Property (QIP) includes modifications to the interior of a building, such as leasehold improvements.
- The 2017 Tax Cuts and Jobs Act (TCJA) sought to make permanent shorter depreciation periods for QIP to reduce the after-tax cost of these improvements, encourage long-term investment, and foster job growth and economic opportunity.
- A drafting error in TCJA requires businesses to recover these costs over a much longer period of time than intended, sometimes over four decades. Firms are delaying or even cancelling renovation projects, disrupting development in retail, restaurant and manufacturing.
- Congress should pass the bipartisan **Restoring Investment in Improvements Act (S. 803, H.R. 1869)** to correct the error and enable businesses to go forward with investment decisions.
- Public entities at the state and local levels have long used incentives as a means of spurring economic development, particularly in underserved communities. Grants, contributions of land, and other incentives often determine whether or not a development is viable.
- Though previously treated as tax-free contributions to capital under Section 118 of the tax code, these incentives are now taxed up front, reducing their value and forcing local governments to make up the difference.
- NAIOP supports bipartisan legislation (**S. 2942**) that would restore the prior tax treatment of these incentives and ensure that local investment dollars are maximized and directed towards much-needed development projects.