

Cosponsor H.R. 1869, the Restoring Investment in Improvements Act A Bipartisan Fix to the “Retail Glitch”

***Endorsed by:** National Retail Federation, National Restaurant Association, Real Estate Roundtable, International Association of Fire Chiefs, NAREIT, National Franchise Association, National Association of Convenience Stores, Retail Industry Leaders Association, National Grocers Association, National Electrical Manufacturers Association, International Council of Shopping Centers, American Institute of Architects, Commercial Real Estate Development Association (NAIOP), Associated General Contractors, Petroleum Marketers Association of America, Alliance to Save Energy, and many more.*

What is Qualified Improvement Property?

- Qualified improvement property (QIP) is any improvement to the inside of a commercial building – offices, industrial properties, restaurants, retailers, etc. Examples include restaurant dining areas, lighting fixtures, doors/walls, fire sprinklers, or common areas.
- Prior to the enactment of the 2017 tax law, improvements made to retail stores and restaurants were depreciated over 15 years and were eligible for bonus depreciation.

The Problem

- Due to a clerical error in the 2017 tax law, QIP was not assigned a depreciation period and as a result, QIP property must be written off over 39 years.
- Congress intended to provide more favorable treatment to QIP by consolidating various types of QIP property into a single definition with a recovery period of 15 years. Because property with a recovery period of 20 years or less is eligible for immediate expensing, QIP would also be eligible for immediate expensing. **Therefore, under the 2017 Tax Act, 100% of the qualified investment should be written off in the first year.**
- The new QIP category was accidentally excluded from the list of 15-year property and was not assigned a depreciation period. With no specific depreciation period provided, the QIP property currently falls under the default definition of non-residential real property, which has a 39-year depreciable life and is ineligible for immediate expensing.
- In 2018, retailers and restaurants delayed store improvements because of the extremely high after-tax cost of these investments caused by the error in the tax law. Some retailers say that they will not have the ability to plan employee bonuses and have delayed announcements about increases in their starting salaries until this issue is resolved.

The Solution

- The legislation corrects the 2017 Tax Act error by giving QIP a 15-year depreciable life as intended, making QIP eligible for immediate expensing.
- The legislation also clarifies that QIP has a 20-year depreciable life for purposes of the Alternative Depreciation System (ADS), which certain businesses that elected out of the new interest limitation in the 2017 Tax Act are required to use.
- Because the cost of this provision was included in the original scoring of the 2017 Tax Act done by the Joint Committee on Taxation, **there is no cost to the legislation.**

Example

- Under prior law, a \$100,000 investment in store renovations in 2018 would have been eligible for an immediate \$40,000 bonus depreciation deduction in the first year and the remaining \$60,000 of investment would be written off over 15 years.
- Under the 2017 tax law as intended, the retailer that made a \$100,000 investment in store renovations in the example above would have been able to deduct \$100,000 in 2018 under immediate expensing.
- Under the 2017 tax law as written, the retailer in that example is only able to write off 1/39 of his \$100,000 investment in 2018, approximately \$2,500. The remaining \$97,500 must be written off over the remaining 38 years.

Benefits of the Bill

- Businesses in communities nationwide are delaying or even cancelling renovation and improvement projects, causing a ripple effect across the restaurant, retail, real estate, and manufacturing industries. Passing this bill reverses this trend and allows for increased investment and job growth.
- Passage will immediately boost job growth in communities across the country by reviving investment that has been sitting on the sideline.

The Senate companion to the Restoring Investment in Improvements Act, S. 803 has been introduced in the Senate by Senators Toomey and Jones with 14 bipartisan cosponsors.

To cosponsor the Restoring Investment in Improvements Act, contact Mark Dennin at mark.dennin@mail.house.gov or 3-8807; or Stephen Simonetti at Stephen.Simonetti@mail.house.gov