

## TENANT IMPROVEMENTS

Cost segregation is a valuable strategy for both tenants and landlords who have made or will be making financial contributions towards tenant improvements. These studies can be performed in the year the improvements are placed into service or on retroactive basis with a look-back study.

### THINGS TO CONSIDER

- Tenant improvements are a commonly overlooked opportunity for cost segregation.
- Tenant improvements should not be capitalized over the lease term and must follow the Modified Accelerated Cost Recovery System (MACRS).
- The absence of base building elements in these studies generally results in a higher percentage allocated to shorter recovery periods.
- It is important to know which party is depreciating the improvements.
- Lease language can dictate ownership of specific improvements.
- Landlords should have costs grouped and summarized by tenant when having a study performed on an entire building to support write-offs during future renovations.
- The adjusted depreciable basis of improvements being retired during a renovation can be written-off, if the individual asset costs are known.
- Large tenant portfolios with similar improvements may be able to benefit from our sampling approach.

### QUALIFIED LEASEHOLD IMPROVEMENT PROPERTY

Leasehold improvements made after 9/11/01 and before 1/1/10 may be eligible for special treatment as Qualified Leasehold Improvement Property (QLI). There are specific rules that determine which improvements qualify and there are different levels of benefit depending on the in-service date. In 2008 and 2009, QLI is depreciated over 15 years and can be combined with 50% Bonus Depreciation, which also has special eligibility rules, to further enhance taxpayer benefits. In 2010, QLI is eligible for 50% Bonus Depreciation but is depreciated over 39 years.

### HOW IT WORKS

Bedford will perform a detailed cost segregation study of the improvements to determine the appropriate recovery periods (5, 7 or 39-year) and whether they are eligible for QLI or Bonus Depreciation. When improvement costs are shared between the landlord and tenant, Bedford will allocate costs based on specific ownership and applicable lease language, tenant allowances, or work letters. If there is nothing to document which party owns which assets, then Bedford will allocate based on the percentage contributed by each party to the total improvements costs.

An engineering-based cost segregation study is the best way to ensure you achieve the maximum allowable benefits. Rules pertaining to QLI and Bonus Depreciation have been changed numerous times over recent years and are often overlooked or misused.

Contact your Bedford representative today to learn more about this valuable application.